1990 BUDGET PROPOSALS AFFECTING FEDERAL AND POSTAL EMPLOYEES AND RETIREES

HEARING

BEFORE THE

SUBCOMMITTEE ON COMPENSATION AND EMPLOYEE BENEFITS

OF THE

COMMITTEE ON POST OFFICE AND CIVIL SERVICE HOUSE OF REPRESENTATIVES

ONE HUNDRED FIRST CONGRESS

FIRST SESSION

MARCH 7, 1989

Serial No. 101-1

Printed for the use of the Committee on Post Office and Civil Service

U.S. GOVERNMENT PRINTING OFFICE

98-020 WASHINGTON : 1989

For sale by the Superintendent of Documents, Congressional Sales Office
U.S. Government Printing Office, Washington, DC 20402

H621-18

COMMITTEE ON POST OFFICE AND CIVIL SERVICE

WILLIAM D. FORD, Michigan, *Chairman*

WILLIAM (BILL) CLAY, Missouri
PATRICIA SCHROEDER, Colorado
ROBERT GARCIA, New York
MICKEY LELAND, Texas
GUS YATRON, Pennsylvania
MARY ROSE OAKAR, Ohio
GERRY SIKORSKI, Minnesota
FRANK McCLOSKEY, Indiana
GARY L. ACKERMAN, New York
MERVYN M. DYMALLY, California
THOMAS C. SAWYER, Ohio
PAUL E. KANJORSKI, Pennsylvania
MORRIS K. UDALL, Arizona
RON DE LUGO, Virgin Islands

BENJAMIN A. GILMAN, New York
FRANK HORTON, New York
JOHN T. MYERS, Indiana
DON YOUNG, Alaska
DAN BURTON, Indiana
CONSTANCE A. MORELLA, Maryland
THOMAS J. RIDGE, Pennsylvania
ROD CHANDLER, Washington
(Vacancy)

PATRICIA F. RISSLER, *Staff Director*
ROBERT E. LOCKHART, *General Counsel*
ADRIENNE FIELDS, *Deputy Staff Director and Chief Clerk*
JOSEPH A. FISHER, *Minority Staff Director*

SUBCOMMITTEE ON COMPENSATION AND EMPLOYEE BENEFITS

GARY L. ACKERMAN, New York, *Chairman*

MARY ROSE OAKAR, Ohio
MICKEY LELAND, Texas

JOHN T. MYERS, Indiana
CONSTANCE A. MORELLA, Maryland

JOSEPH SISK, *Subcommittee Staff Director*

CONTENTS

Statement of:

	Page
Hon. Steny Hoyer, a U.S. Representative from Maryland	4
E. John Prebis, Associate Deputy Director for Planning and Budget, Office of Personnel Management, accompanied by Anthony F. Ingrassia, Deputy Associate Director for Personnel Systems and Oversight; Jerome D. Julius, Deputy Associate Director for Retirement and Insurance; and Frank D. Titus, Assistant Director for Financial Control and Management, Retirement and Insurance Group	15
H.T. Steve Morrissey, president, National Association of Retired Federal Employees, accompanied by H.L. Ripple, vice president, and Marshall Wittmann, legislative Department	33
Moe Biller, president, American Postal Workers Union	47
Vincent Sombrotto, president, National Association of Letter Carriers	60
Glenn Berrien, national president, National Postal Mail Handlers Union	70
John H. Sturdivant, national president, American Federation of Government Employees [AFL-CIO]	73
Robert Tobias, president, National Treasury Employees Union	92
Beth Moten, legislative director, National Federation of Federal Employees	94
Ron Swisher, president, National League of Postmasters	104
Rubin Handelman, president, National Association of Postal Supervisors	118
Ted Valliere, director of government relations, National Association of Postmasters of the United States	125
Michael Minahan, president, Federal Managers Association, accompanied by Bruce Moyer, legislative counsel	129
G. Jerry Shaw, general counsel, Senior Executives Association	142
Robert L. White, president, National Alliance of Postal and Federal Employees, accompanied by Jacqueline Tollett, legislative assistant	152

Statements and letters received from:

Hon. Constance A. Morella, a Representative in Congress from the State of Maryland	13
Hon. Mary Rose Oakar, a Representative in Congress from the State of Ohio	11
Hon. John T. Myers, a Representative in Congress from the State of Indiana	14
Hon. Frank R. Wolf, a Representative in Congress from the State of Virginia	155
American Federation of State, County and Municipal Employees	159
National Association of Government Employees	161
National Council of Social Security Management Associations, Inc	165
Blue Cross and Blue Shield Associations	170

FISCAL 1990 BUDGET PROPOSALS AFFECTING FEDERAL AND POSTAL EMPLOYEES AND RETIREES

TUESDAY, MARCH 7, 1989

HOUSE OF REPRESENTATIVES,
SUBCOMMITTEE ON COMPENSATION
AND EMPLOYEE BENEFITS,
COMMITTEE ON POST OFFICE AND CIVIL SERVICE,
Washington, DC.

The subcommittee met, pursuant to notice, at 10:45 a.m., in room 311, Cannon House Office Building, Hon. Gary L. Ackerman (chairman of the subcommittee), presiding.

Mr. ACKERMAN. The committee will come to order. I apologize for being uncustomarily late today. I was expecting to be here facing an empty room because of the weather, but I see we have a standing room only group, and I think anybody who showed up here today, as well as all of their members, deserve at least a 10 percent salary increase just because of your fortitude. [Laughter]

To set the tone, I will forgo my opening statement in the interest of brevity.

[The statement of Mr. Ackerman follows:]

OPENING STATEMENT
REP. GARY L. ACKERMAN
CHAIRMAN
SUBCOMMITTEE ON COMPENSATION AND EMPLOYEE BENEFITS
MARCH 7, 1989

Today, the Subcommittee on Compensation and Employee Benefits will hear testimony on the President's Fiscal Year 1990 budget proposals affecting Federal and postal employees and retirees.

President Bush, in a recent speech to senior executives, said "I have not known a finer group of people than those I have worked with in government. You work hard, you sacrifice, and you deserve to be recognized, rewarded, and appreciated."

Sadly, his lofty words are not reflected in the budget he has sent us.

President Bush proposes a 2 percent pay raise effective January 1990 -- completely ignoring the 26 percent pay gap between Federal employees and their private sector counterparts. The proposed raise would not even keep pace with inflation which the Administration predicts will increase by 3.5 percent.

The President also wants to cut health benefits for Federal employees and retirees by reducing the Government's share of the cost of the Federal Employees Health Benefits Program -- despite the fact that Federal employees already pay higher premiums than do employees in the private sector.

Federal and postal retirees are also under attack by the Bush Administration. The President proposes to eliminate the retiree COLA for 1990 and to alter the formula for future COLAs for Federal retirees covered by the Civil Service Retirement System. The full COLA is the only protection CSRS retirees have against inflation, and is the same protection which Social Security recipients enjoy.

I am today releasing a chart prepared by the General Accounting Office, which details almost $104 Billion in cuts in pay and benefits which Federal employees and retirees have suffered since 1976. The majority of these cuts have come from reductions and delays in pay raises and COLAs. It has been 12 years since Federal employees received a pay raise at the level prescribed by law to make their pay comparable with private sector rates. I think it's clear that Federal and postal employees and retirees have already sacrificed more than their fair share through budget cuts.

When he talks about "Building a Better America", the President promises to step-up the fight against drugs and to clean up our environment. But to the Federal employees who are supposed to implement his programs, he says 'you are only worth a 2 percent pay increase and your health benefits should be cut'. And for retirees who dedicated their lives to public service he shows his gratitude by denying their COLA and cutting their future protection against inflation.

Clearly, the President does not include Federal and postal employees and retirees in his vision of "a kinder, gentler nation".

Today we will hear from the Office of Personnel Management, representatives of Federal retirees, Federal and postal employees, and managers.

Prepared by the General Accounting Office

CHANGES AFFECTING THE PAY AND BENEFITS OF FEDERAL EMPLOYEES
(fiscal years 1976 to 1989 - in millions)

CHANGE	1976	1977	1978	1979	1980	1981	1982	1983	1984	1985	1986	1987	1988	1989	Total
Reductions in Scheduled Pay Increases	$825.7	$0.0	$0.0	$837.9	$1,036.3	$1,325.8	$3,296.8	$4,999.1	$6,909.6	$5,881.3	$8,094.5	$8,801.9	$10,427.0	$11,036.5	$63,472.4
Delays in Scheduled Pay Increases									375.2	329.3	0.0	317.2	239.8	510.0	1,771.5
Revisions in the Federal Employee Health Benefits Program							380.0	380.0	705.0	980.0	980.0	980.0	980.0	980.0	6,365.0
Medicare Taxes								600.0	800.0	900.0	1,000.0	1,000.0	1,000.0	1,000.0	6,300.0
Elimination of Paid Holidays From Lump Sum Leave Payment						22.0	22.0	22.0	25.0	26.0	26.0	26.0	26.0	26.0	221.0
Revision in the Computation of General Schedule Pay - 2080 to 2087 Hours									130.0	131.0	65.0	65.0	131.0	131.0	653.0
Changes in Retirement COLA Adjustment & Elimination of 1 Percent add on		125.0	208.0	337.0	492.0	540.0	550.0	550.0	550.0	550.0	550.0	550.0	550.0	550.0	6,102.0
Revision of Minimum Benefit Provisions for Disability Retirement						49.0	49.0	49.0	49.0	49.0	49.0	49.0	49.0	49.0	441.0
Repeal of the Lookback Annuity Guarantee Provision						270.0	270.0	270.0	270.0	270.0	270.0	270.0	270.0	270.0	2,430.0
Semi-Annual to Annual COLA Adjustments							430.0	430.0	430.0	430.0	430.0	430.0	430.0	430.0	3,440.0
Limitation of COLA to one-half the CPI for Retiree Under 62 & Other Changes								180.0	203.0	203.0	203.0	203.0	203.0	203.0	1,398.0
Delay in COLA From June to December									362.0	1,116.0	1,525.0	1,525.0	1,525.0	1,525.0	7,578.0
Revision of Eligibility Requirements for Disability Retirement					140.0	140.0	140.0	140.0	140.0	140.0	140.0	140.0	140.0	140.0	1,400.0
Sequestration of COLA Required by the Deficit Reduction Act											534.5	534.5	534.5	534.5	2,138.0
TOTAL	$825.7	$125.0	$208.0	$1,174.9	$1,668.3	$2,346.8	$5,137.8	$7,620.1	$10,548.8	$11,005.6	$13,867.0	$14,891.6	$16,505.4	$17,385.0	$103,710.0

Mr. ACKERMAN. We will go to our first witness, who has been patiently waiting and has a very busy schedule. He is a champion on the causes important to all of us here in this room, the Cochairman of the Federal Government Service Task Force, my colleague from the State of Maryland, Steny Hoyer.

STATEMENT OF HON. STENY HOYER, A U.S. REPRESENTATIVE FROM MARYLAND

Mr. HOYER. Thank you very much, Mr. Chairman. I am very pleased to be here. I want to congratulate you, in particular, for your leadership on issues of importance not only to the federal service but also to the American public. The message, I think, that we all want to convey is that those who are employed by the Federal Government of course work for America, work for all the citizens of our country, and therefore the issues that we deal today with are critically important.

As you know, Mr. Chairman, I represent a great many government employees and retirees from Maryland's 5th Congressional District. However, I am here this morning not only on their behalf but also in my capacity as Cochairman of the Federal Government Service Task Force.

As you earlier observed, it is a broad-based bipartisan coalition of 55 members of the House and Senate concerned with issues affecting federal service. I have been asked by Cochairmen Vic Fazio and Norm Dicks and many other task force members to represent their concerns as well before the subcommittee this morning.

Mr. Chairman, I find it regrettable that even though we are working with a brand new administration, it is still appropriate to begin this morning's testimony with the statement frequently used by Ronald Reagan: "Here we go again." Unfortunately, the new administration seems to adopt the Reagan Administration's practice of trying to balance the budget on the backs of the federal work force.

In his final budget proposal President Reagan recommended: disparate pay raises for civilian and military personnel; increased employee and retiree contributions to the Federal Employee Health Benefit Program; elimination of the fiscal 1990 cost of living adjustment; reduced cost of living adjustments in subsequent years for federal retirees; and repeal of the lump sum annuity option.

We in the Federal Service Task Force believe these proposals are short-sighted, counterproductive and unfair. Therefore, I join 44 of my colleagues on the task force in asking President Bush to reconsider these proposals, which place an unfair burden for deficit reduction on those who have committed their working lives to public service.

We have seen these and other similar budget-cutting proposals over the last eight years, and each year I feel compelled to speak out against them. Mr. Chairman, we must oppose these proposals for two critical reasons. First, these proposals are unfair because federal workers have already been forced to bear more than their fair share of reduced pay and benefits in the name of deficit reduction, and secondly the chronic devaluation of federal pay and benefits over the last several years threatens to make the Federal Gov-

ernment an employer of last resort. This Nation must have a quality federal work force to meet the formidable challenges ahead, yet we find our federal work force at a crossroads. The evidence clearly shows we cannot attract the caliber of individuals we want in public service.

Just recently, the Office of Personnel Management's report, Civil Service 2000, which I would commend to the attention of this committee—and I am sure, Mr. Chairman, you have already read it—described a federal government that is losing its ability to hire employees qualified to perform increasingly complicated technical work because of low salaries, declining prestige and needless frustration.

Events during the past year originally gave me cause for optimism that attitudes toward the Civil Service could be changed and were changing. The formation of the Volcker Commission, the absence of the bureaucrat-bashing rhetoric during the last presidential campaign and President Bush's symbolic meeting with the SES during his first week in office all, in my opinion, demonstrated a heightened awareness of the problem facing government.

Unfortunately, President Bush's acknowledgement that the government has an important role to play in addressing national concerns has not been backed up with constructive proposals to mitigate our work force problems. The Congressional Budget Office's recent review of the potential impact of the Bush budget proposals on the typical federal civilian worker clearly demonstrates this point.

After taking into consideration the Bush proposal to raise pay 2 percent and reduce the government's contribution to FEHBP, the net increase in pay to the typical federal employee, who earns approximately $32,700, would be two tenths of 1 percent. This is a net increase of $50 in 1990 for that employee earning $32,700. How much inflation protection, how much morale-boosting, how much self-worth assurance, will that provide to any of our federal employees?

That, Mr. Chairman, as you well know, comes on top of a substantial devaluation of benefits since 1980. A 10.3 percent in those nine years in purchasing power, a 100 percent increase in health benefit premiums. We have doubled health benefit premiums in nine years, and a 10 percent reduction in the value of the Civil Service retirement annuities.

Furthermore now, that federal pay lags an average of 26.3 percent behind private sector salaries and staff reductions and privatization efforts have put more than 400,000 jobs at risk. It is no wonder we face prospects of a seriously weakened federal work force.

After losing $101 billion in federal pay and benefits to deficit reduction measures, it is appropriate to ask the question, why do federal employees and retirees continue to be unfairly singled out? Let me repeat that: $101 billion in lost pay and benefits in the last decade.

Why does this Administration continue to propose higher salaries for the military than for civilian workers, intimating, I think it is clear, that civilian workers are less valued.

In reviewing options for a federal pay raise over the past few years, I had the opportunity to compare military compensation with that of career civil servants. The data was and is troubling.

Between January 1980 and January 1989, consumer prices rose 54.4 percent and military pay rose 61.8 percent. In contrast, salaries for federal civilian employees rose only 40 percent. Therefore, federal employees lost about 15 percent, probably more when you take in the compounding effect, and lost 21, almost 22 percent to the comparability of their military counterparts.

I want to make it clear that I do not find it troubling that military pay has kept pace with inflation. It ought to. I certainly believe the military deserves its pay raises. However, because both groups are integral to the security and prosperity Americans enjoy, I believe and I know this committee shares that view, that civil servants deserve commensurate increases.

The 1987 bipartisan budget summit agreement between the President and the Congress recognized the importance of maintaining parity in pay increases for civilian and military personnel. Adhering to the 1987 agreement, Congress approved raises of 2 percent in fiscal year '88 and 4.1 percent in fiscal '89.

I might say, however, Mr. Chairman, as you know, that that was only because of the actions of Congress. I believe we must not deviate from that practice this year. I would hope that the minimum that we would seek would be a comparable adjustment to what the President has proposed for the military.

It is also important, Mr. Chairman, to ask why federal and military retirees are being told to sacrifice their COLAs for the good of the Nation when Social Security recipients are not asked to make the same sacrifice?

In 1986, Congress included in the Omnibus Reconciliation Act a provision which ensured federal retirees' cost-of-living adjustments would be given the same protection from sequestration as COLAs for Social Security recipients, clearly a determination that there was and ought to be a comparability between the two.

The commitment to treat all retirees' COLAs in the same manner was renewed during the bipartisan budget summit in 1987. Now, unfortunately, the Administration wants to abandon this pledge and deprive federal and military retirees the inflation protection guaranteed Social Security recipients.

Mr. Chairman, my experience with federal employees and federal retirees has been that if the belt is to be tightened by everybody they are prepared to share in that process. They are prepared to contribute their fair share to deficit reduction and fiscal discipline in this Nation.

But they rightfully do not believe, and I do not believe and I hope this committee does not believe—I know it does not—and I hope the Congress does not concur with the President's proposal that federal employees uniquely ought to be singled out in our society to be underpaid and undervalued, Mr. Chairman.

We must get our budgetary house in order to ensure we do not become a Nation at risk. That requires us to define our priorities clearly and make tough budgetary choices. Once those choices are made our limited resources will demand creativity and efficiency

from all of us in government. We must be able to attract the kinds of workers who can perform under these conditions.

The Administration's proposals to cut pay and benefits are counterproductive to those interests, and I strongly recommend and believe that the committee will reject overwhelmingly the short-sighted proposals and the recommendations it will present to the House Budget Committee.

Mr. Chairman, I appreciate this opportunity to appear before you and I would ask unanimous consent to include an appendix, two appendices, to my statement which outline to some degree the cut in benefits, the largest of which, Mr. Chairman, is a $61.8 billion shortfall in the promises Congress made to its federal employees in 1979 and 1980, promises on which federal employees were continuing service.

If those promises had been met, if that commitment had been met, if we had kept our moral obligation to these employees, their pay would be $61.8 billion higher than it is today. We have reached into their pockets and taken that $61.8 billion out of it. There are other instances where we have done the same, and I would like that included in the record, Mr. Chairman.

Thank you for this opportunity to appear before you, and I would note that my colleague from Maryland, Mrs. Morella, has come in and I want to thank her as she is a member of the Federal Government Service Task Force and works together with us. She has been a very strong advocate of the interests, Mr. Chairman, that you have been such a leader in over the years. Thank you, Mr. Chairman, very much.

[The attachments to the statement of Congressman Hoyer follow:]

APPENDIX I

"Potential Impact of President Bush's Budget Proposals on the Typical Federal Civilian Employee"

The Congressional Budget Office (CBO) projected the potential impact of President Bush's budget proposals on the typical federal civilian worker and found that standard deductions for taxes, retirement, and health insurance will reduce the 2.0% raise offered by the Administration to a paltry 0.2% increase.

According to CBO, the typical federal civilian employee will earn about $32,700[1] in 1989. President Bush has recommended a 2.0% raise for civil servants—effective January 1990—which adds $654 to that salary. However, deductions for federal and state taxes and Medicare and/or retirement contributions will cut that raise to $436.

Furthermore, the typical federal worker is enrolled in the Blue Cross/Blue Shield standard option family plan in the Federal Employee Health Benefits Program (FEHBP) and can expect to pay $386 more for health insurance in 1990. Skyrocketing health care costs are expected to push FEBHP premiums up 15% for 1990, adding $126 to the cost of health insurance for the typical civil servant. In addition, President Bush's proposal to shift a greater share of FEHBP costs from the government to enrollees will raise the cost of that plan about $260.

Therefore, under Bush's proposals, the typical federal employee will take home $50 more in 1990 than he/she did in 1989 after taxes, retirement contributions, and health insurance premiums—a net increase in pay of 0.2%.

SALARY AFTER TAXES		
Typical salary in 1989: $32,700	2% Raise in Jan. 1990 will add: $654	Deductions for taxes will leave[2]: $436

FEHBP INCREASES		
Bush Cost-Shifting Plan will cost[3]: $260	Rising Health Care Prices will cost[4]: $126	Total Premium Increases will cost: $386

NET INCREASE IN PAY IN CY90 $50

---

[1]Salary rate for a GS-11, step 5.

[2]Deductions for taxes based on assumption of 25% for federal and state taxes and 8% for retirement and/or Medicare contributions.

[3]Under current law, the government contribution to FEHBP is based on a percentage of the unweighted average premium of six health plans commonly referred to as the "Big Six." The Bush administration recommends replacing the Big Six average with a new formula based on the weighted average premium of all FEHBP plans.

[4]CBO estimates FEHBP premiums will increase an average 15% in CY 1990.

APPENDIX II

Changes Affecting the Pay and Benefits of Federal Employees*
(in millions)

Change	Total (fiscal years 1980-1989)
Reductions in Scheduled Pay Increases	$ 61,808.8
Delays in Scheduled Pay Increases	1,771.5
Medicare Taxes	6,300.0
Elimination of Paid Holidays from Lump Sum Leave Payment	221.0
Revision in the Computation of General Schedule Pay—2080 to 2087 Hours	653.0
Revisions in the Federal Employee Health Benefits Program	6,365.0
Changes in Retirement COLA Adjustment & Elimination of 1 Percent add on	5,432.0
Revision of Minimum Benefit Provisions for Disability Retirement	441.0
Repeal of the Lookback Annuity Guarantee Provision	2,430.0
Semi-Annual to Annual COLA Adjustments	3,440.0
Limitation of COLA to one-half the CPI for Retirees Under 62 & Other Changes	1,398.0
Delay in COLA from June to December	7,578.0
Revision of Eligibility Requirements for Disability Retirement	1,400.0
Sequestration of COLA Required by the Deficit Reduction Act	2,138.0
TOTAL	$101,376.3

* Source: General Accounting Office

Mr. ACKERMAN. The committee greatly appreciates the depth and wisdom of your statement and all the fine work that you personally, Mr. Chairman, as well as the rest of the task force, have been doing in this very, very important and critical area of such great concern to our Nation.

Ms. Morella, do you have any questions?

Mrs. MORELLA. First of all, Mr. Chairman, I want to thank you for the leadership that you have shown through my first term here in Congress for federal employees and retirees, and tell you that I am so pleased to be a member of this subcommittee again.

Congressman Hoyer has, even before I was elected, been a leader looking out for the people who make government run—Federal employees and the retirees—and it has been a pleasure to work with him as a member of the Federal Service Task Force and as a member of the Maryland delegation.

I would like to ask unanimous consent that my opening statement be included in the record, and I would just like to make a few comments with regard to the budget.

I thank Congressman Hoyer for his very kind remarks and will continue to work with him for the benefit of Americans.

Mr. ACKERMAN. Thank you very much for being with us this morning, Congressman Hoyer.

Mr. HOYER. Thank you, Mr. Chairman.

Mr. ACKERMAN. Without objection, Congressman Morella's opening statement as well as mine will be made a part of the record, and let me express my personal delight in having you back on this subcommittee again in this session of Congress. I think we have a great team working bipartisanly on all of the issues that come before us.

Mrs. MORELLA. Thank you. Mr. Chairman, I wanted to comment that our ranking member on this committee, John Meyers, is also one who is dedicated to the advancement of compensation and benefits for our federal employees and retirees. Alas, he has been placed in the position of being on the Ethics Committee which is meeting right now and continuing to meet, so he has asked me to express his regrets but he will be following very closely what happens and certainly be part of our team here.

I just wanted to comment that when the first budget came out by former President Reagan I studied it—I looked at it particularly in terms of what the consequences would be for our federal employees and retirees and we saw indeed there were major problems.

One problem has to do with the compensation of our federal employees where a 2 percent salary increase had been placed in that initial draft budget, and yet 3.7 percent was placed there for military personnel; it does not look like there is any equity in that kind of planning. We also observed that the federal retirees were going to be subjected to a freeze in the cost-of-living adjustment for one year and then would be receive the CPI minus 1 for subsequent years.

I wrote to President Reagan with a copy to President-designate Bush. Then I looked at the Bush budget, noticed that the very same items were presented the very same way, including the lump sum problem, including the problem with the premiums for the federal employee health benefits plan, and I again wrote to Presi-

dent Bush. I got Members of Congress to sign on to the letter that was sent in very strong terms outlining what the real problems are. I continue to adhere to that position. I would be interested to hear the comments during our deliberations today. When President Bush said that a contract was made for our older citizens I guess he was not including the federal retirees. So, I am hoping that we will be able to work with Congress and with the Administration to remedy the major inequities that we see at this time.

The Congressional Quarterly quoted me in a statement that I made, that evidently we operate under the premise that that government that pays least, governs best; I think we find that that is not true, that you get what you pay for, and it is time for us to show recognition with remuneration for our federal employees and retirees.

I thank you, Mr. Chairman.

Mr. ACKERMAN. Well, I thank you. I think it would certainly not be immodest if you had quoted yourself without quoting somebody who quoted you.

[Laughter]

Mrs. MORELLA. We get so hung up on this attribution business.

Mr. ACKERMAN. I thought that was only a problem in Delaware.

[Laughter]

Mr. ACKERMAN. If there be no objection, the opening statements of Representatives Morella, Oakar, and Myers will be placed in the record.

[The statements follow:]

STATEMENT OF HON. MARY ROSE OAKAR

Mr. Chairman, I would like to take this opportinity to thank you for holding this hearing on the FY 1990 budget as it specifically relates to federal employees and retirees. Furthermore, I would like to commend your commitment to protecting the rights of all federal employees, their dependents and retirees. Your leadership in this area is greatly appreciated by all of us.

Mr. Chairman, I am very disappointed by the proposals contained in the president's budget. Less than a month ago, President Bush himself said, "The administration is pledged not only to hold public servants to an exacting standard of conduct, but to communicate the importance of the of their work as to encourage others to serve their country." Once again, however, his actions speak louder than words.

To briefly summarize the President's budget proposals, the administration is seeking to: Provide only a 2 percent pay increase for civilian employees while providing for a 3.8 percent for military personnel; eliminate the cost-of-living-adjustment for civil service retirees in fiscal year 1990 and limit future colas to cpi minus one percent: Repeal of the lump-sum withdrawal option; change the way in which the government's share of the cost of the federal employees health benefits plan is calculated; eliminate the revenue foregone appropriation; and reduce postal construction projects.

As most of us know, these proposals have been submitted in prior years and have been summarily rejected by this subcommittee, the full post office and civil service committee, and the house of representatives. We have refused to accept the proposals because of their service impact on the morale and the productivity of federal employees, as well as the vital services that they perform for the citizens of their country.

It is easy to fall into the trap of citing statistics and cost-saving measures without really looking at the individuals who, and the essential government services which, would be adversely affected by the president's proposals.

People, such as our astronauts, some who have tragically given their lives in the service of their country—who represent the hopes, aspirations, and pioneering spirit that has been the hall mark of our great nation.

We are talking about the people who work at the National Institutes of Health, who are performing invaluable cancer research; our letter carriers and postal work-

ers, who are so dependable and from whom we receive the greatest mail service in the world; the Food and Drug Administration employees, who inspect meat and poultry of protect our employees from disease; and law enforcement officers who face grave danger in attempting of stem the flow of illegal drugs that are flooding our nation.

When we say "Federal employees," we are not referring to a faceless bureaucracy; we are describing our sons and daughters, our neighbors, and our friends. We are referring to our grandparents and other seniors who dedicated their lives to public service.

These are men and women who continue to be much maligned and abused, year after year by this and the last administration. These men and women are now once again facing further reductions in their pay, retirement benefts, and health insurance.

These measures are neither fair, nor in the public interest. We should say thank you to them, not victimize them in the budget year after year.

I reject the President's request for only a two percent pay increase for Federal employees considering the fact he requests a 3.8 percent for military personnel. The President should treat all employees fairly and equally. It is important to remember, however, that the President's own pay agent has recommended a wage increase of nearly 27 percent. Since 1981, the gap between salaries for federal jobs and equivalent jobs in the private sector has doubled. Furthermore, the President's own budget projections indicate that the Consumer Price Index is expected to increase by more than 4 percent this year.

Mr. Chairman, the lack of competitiveness in pay, coupled with repeated attempts to dismantled the benefit package, have resulted in a demoralized federal workforce, a reduction in service to the public, and a threat to our national security. Today, the Federal Government, in many instances, is the employer of last resort. Recruitment is difficult and retention is at an all time low. Recent data indicate that the voluntary separation rates for many engineers and scientists has doubled over the last ten years. The Federal Government is finding it harder to compete with private sector in hiring quality graduates from our nation's colleges and universities.

Despite this, Federal workers have continued to perform duties vital to our Nation. They have risked their lives trying to stem the flow of illegal drugs into the country. They have made things fairer for the average working person by catching and prosecuting corporate tax evaders and wall street inside traders.

Finally, one of the proposals which concerns me most is the proposed elimination of the COLA. Once again, Federal retirees are being singled out to bear the brunt of Federal deficit reduction in their cost-of-living-adjustments. Mr. Chairman, as you well remember, the Balanced Budget and Emergency Deficit Control Act of 1985 eliminated fiscal year 1986 COLAS for civil service, military, railroad, and disability annuitants while guaranteeing a COLA for social security and veteran benefit recipients. This decision to differentiate between annuitants with respect to COLAS was contrary to policy decisions made by the Congress.

Mr. Chairman, this year it is the same story; President Reagan in submitting his final budget, called for the elimination of COLAs for federal retirees in 1990, and the new president seems willing to follow his lead.

Mr. Chairman, in 1986, I was joined by more than 280 of my colleagues in sponsoring legislation guaranteeing COLAs for all non-social security recipients. This legislation, as passed by the House under suspension of the rules, was amended to ensure that miliary, tier II, railroad retirement, CIA, foreign service, and certain FECA beneficiaries would also receive their COLAs on time. The Senate shortly thereafter passed similar language. Final language was included in budget reconciliation and since that time all retirees have been receiving their yearly COLA.

I believe and think most of my colleagues agree, that it is important that we treat all of our nation's retirees fairly. But the new administration seems intent on breaking this promise we have made to our senior citizens. Federal budget cuts during the last 8 years have already fallen heavily on Federal workers and annuitants. Annuitants have lost approximately 30 percent of their cost-of-living-adjustments. Such reductions fall especially hard on federal retirees whose average pensions are $1,146 a month and their survivors whose average benefits is 552.

Mr. Chairman, we cannot undo the events of the past. However, we can prevent the perpetuation of inequitable treatment of our senior citizens who perform the jobs so essential to making our government work. That is why I introduced, H.R. 1074, legislation that simply provides that these retirees are treated the same as social security beneficiaries. It guarantees that our nation's retirees be treated equally and that they will be assured of the COLAs we promised them.

I look forward to the testimony of the many fine witnesses this morning.

STATEMENT OF
THE HONORABLE CONSTANCE A. MORELLA
SUBCOMMITTEE ON COMPENSATION & EMPLOYEE BENEFITS
7 MARCH 1989

MR. CHAIRMAN, IT IS A PLEASURE FOR ME TO SERVE ON THIS SUBCOMMITTEE FOR A SECOND TERM. YOU HAVE BEEN INSTRUMENTAL IN GUIDING THROUGH IMPORTANT LEGISLATION FOR THE BENEFIT OF FEDERAL EMPLOYEES AND RETIREES AND IT HAS BEEN MY PRIVILEGE TO ASSIST IN THESE ENDEAVORS. I LOOK FORWARD TO ANOTHER TERM OF HARD WORK, NEW IDEAS AND BENEFITS FOR A GROUP OF PEOPLE WHO HAVE SERVED OUR NATION WELL.

MR. CHAIRMAN. I GET A SENSE OF DEJA VU WHEN WE DISCUSS THE PRESIDENT'S BUDGET PROPOSAL FOR FISCAL YEAR 1990. WHAT HAS EMERGED FROM PRESIDENT BUSH'S RECOMMENDATION IS A PHOTOCOPY OF WHAT THIS SUBCOMMITTEE AND THE COMMITTEE ON POST OFFICE AND CIVIL SERVICE HAS BEEN WORKING AGAINST FOR OVER A DECADE.

I WROTE TO THE PRESIDENT TWICE IN JANUARY, TO URGE HIM TO REJECT PRESIDENT REAGAN'S BUDGET PROPOSALS WHICH WOULD HAVE AFFECTED THE FEDERAL EMPLOYEE AND RETIREE IN AN ADVERSE MANNER.

THE CURRENT BUDGET HAS A NEGATIVE EFFECT ON FEDERAL EMPLOYEES. MORALE IS AT AN ALL-TIME LOW. THIS IS MOST UNFORTUNATE AS WE ALREADY HAVE A GENUINE PROBLEM WITH RECRUITMENT AND RETENTION OF TALENTED AND EXPERIENCED PUBLIC EMPLOYEES. IT IS UNFAIR TO TREAT PUBLIC EMPLOYEES DIFFERENTLY BY PROPOSING A 3.6 PERCENT INCREASE FOR MILITARY PERSONNEL AND ONLY A 2 PERCENT INCREASE FOR FEDERAL EMPLOYEES. BY THE SAME TOKEN, IT IS TOTALLY UNACCEPTABLE TO PROPOSE A FULL COLA FOR SOCIAL SECURITY BENEFICIARIES AND ELIMINATE COLAs FOR FEDERAL AND MILITARY RETIREES IN 1990. FURTHERMORE, TO LIMIT FUTURE COLAs TO THE CONSUMER PRICE INDEX (CPI) MINUS ONE PERCENT WILL BE DIFFICULT MANY FEDERAL RETIREES WHO DO NOT HAVE OTHER INCOME. IT IS NO SECRET THAT FEDERAL ANNUITIES ARE FULLY TAXED WHEREAS SOCIAL SECURITY BENEFITS ARE NOT - YET THE ADMINISTRATION SEES FIT TO KEEP FEDERAL ANNUITIES BELOW THE INFLATION LEVEL.

MR. CHAIRMAN, FEDERAL EMPLOYEES WORK FOR MANY YEARS AT SALARIES WHICH ARE, ON THE AVERAGE, 26 PERCENT BELOW THOSE IN THE PRIVATE SECTOR; THEY RETIRE WITH AT LEAST THAT MUCH LESS IN THEIR MONTHLY ANNUITY AND ARE AGAIN ASKED TO MAKE ADDITIONAL SACRIFICES BY LOSING FULL INFLATION PROTECTION. RETIREES IN BOTH THE PRIVATE AND PUBLIC SECTOR MUST BE TREATED ALIKE AND FAIRLY.

I LOOK FORWARD TO WORKING WITH YOU, MR. CHAIRMAN, ON ISSUES WHICH WILL REWARD THE SERVICE AND THE SACRIFICE MADE BY FEDERAL EMPLOYEES. THE HEALTH BENEFITS PROGRAM MUST BE AMENDED IN ORDER THAT PUBLIC EMPLOYEES RECEIVE WHAT THEY PAY FOR - ADEQUATE HEALTH INSURANCE. THEY MUST BE ASSURED THAT THEY CAN TAKE ADVANTAGE OF THE LUMP SUM OPTION. THE RETROACTIVE ELIMINATION OF THE THREE YEAR RECOVERY RULE WAS A RUDE AWAKENING THAT THE GOVERNMENT CAN CHANGE THE RULES IN THE MIDDLE OF THE GAME.

WE CANNOT RECOGNIZE OUR PUBLIC SERVANTS WITH EMPTY WORDS AND WE CANNOT EXPECT THEM TO BRING UP THEIR FAMILIES IN THIS COMPETITIVE SOCIETY WITH MERELY A PAT ON THE BACK AND A FRAMED CERTIFICATE. NO ONE EXPECTS THE FEDERAL WORKER TO BECOME WEALTHY ON HIS OR HER SALARY BUT WE MUST MAKE SURE THAT FEDERAL WORKERS AND RETIREES CAN TAKE PART IN THE AMERICAN DREAM.

Statement of Congressman John Myers

before the

Subcommittee on Compensation and Employee Benefits

Mr. Chairman, I appreciate the opportunity to receive testimony regarding the fiscal year 1990 federal budget and its impact on our nation's federal employees. I look forward to hearing the budget views from our colleagues, Administration officials and federal employee groups and organizations.

As we all know, the government's budget is an absolute disaster. The national debt has surpassed the $2 trillion mark and the Gramm-Rudman balanced budget law dictates the steps to reduce the government's red ink. Simple mathematics will show that budget cuts for all sectors of the federal budget are necessary.

With the knowledge that budget cuts are coming, this hearing is all the more important. This hearing will prove to be the catalyst in focusing special attention on the sections of the budget that affect this nation's three million federal workers. It is my hope that we all can work together in order that we can prevent federal employees from taking the direct hit.

Every Republican member of the Post Office and Civil Service Committee has expressed his or her concern about the proposed federal budget. We believe that federal, postal employees and retirees should not have to shoulder more than their fair share in the efforts to reduce the budget deficit. The Republican members have asked the Administration to "avoid this path and ensure that all deficit reduction measures are fairly and equitably distributed across the board."

It is interesting to note that during the last presidential campaign, there was an absence of the usual bureaucrat bashing by the candidates. It is my belief that we must look at the budget with open minds. This is a time to ban together and not play the usually game of bashing the Administration.

The time is ripe for members of this Subcommittee and those appearing before us to educate the public about the important role that federal employees have in maintaining our democracy.

Mr. ACKERMAN. Our first panel today—and before we introduce them we have suggested to all of our witnesses today, and they are many, that they try to limit their remarks if at all possible to five minutes.

Our first panel this morning will be from the Office of Personnel Management. We have with us Mr. Anthony F. Ingrassia, Deputy Associate Director for Personnel Systems and Oversight, Mr. Jerome D. Julius, Deputy Associate Director for Retirement and Insurance, Mr. E. John Prebis, Associate Deputy Director for Planning and Budget, and the fourth person is Frank Titus, Assistant Director for Financial Control and Management.

Good morning.

STATEMENT OF E. JOHN PREBIS, ASSOCIATE DEPUTY DIRECTOR FOR PLANNING AND BUDGET, OFFICE OF PERSONNEL MANAGEMENT; ACCOMPANIED BY ANTHONY F. INGRASSIA, DEPUTY ASSOCIATE DIRECTOR FOR PERSONNEL SYSTEMS AND OVERSIGHT; JEROME D. JULIUS, DEPUTY ASSOCIATE DIRECTOR FOR RETIREMENT AND INSURANCE, AND FRANK D. TITUS, ASSISTANT DIRECTOR FOR FINANCIAL CONTROL AND MANAGEMENT, RETIREMENT AND INSURANCE GROUP

Mr. PREBIS. Thank you, Mr. Chairman. We appreciate your inviting the Office of Personnel Management here today to discuss the Administration's proposals for fiscal year 1990 affecting federal employees.

I will take you up on your suggestion and offer to submit my opening statement for the record, and we are prepared to answer any questions you may have at this time.

[The statement of Mr. Prebis follows:]

STATEMENT OF
E. JOHN PREBIS, ASSOCIATE DEPUTY DIRECTOR
FOR PLANNING AND BUDGET
OFFICE OF PERSONNEL MANAGEMENT

at a hearing of the

SUBCOMMITTEE ON COMPENSATION
AND EMPLOYEE BENEFITS
COMMITTEE ON POST OFFICE AND CIVIL SERVICE
U.S. HOUSE OF REPRESENTATIVES

on

FISCAL YEAR 1990 BUDGET PROPOSALS
AFFECTING FEDERAL EMPLOYEES

MARCH 7, 1989

MR. CHAIRMAN AND MEMBERS OF THE SUBCOMMITTEE:

THANK YOU FOR INVITING THE OFFICE OF PERSONNEL MANAGEMENT TO APPEAR THIS MORNING TO DISCUSS THE ADMINISTRATION'S FISCAL YEAR 1990 BUDGET PROPOSALS AFFECTING FEDERAL EMPLOYEES.

I AM ACCOMPANIED TODAY BY JEROME D. JULIUS, DEPUTY ASSOCIATE DIRECTOR FOR RETIREMENT AND INSURANCE, FRANK D. TITUS, ASSISTANT DIRECTOR FOR FINANCIAL CONTROL AND MANAGEMENT, AND ANTHONY F. INGRASSIA, DEPUTY ASSOCIATE DIRECTOR FOR PERSONNEL SYSTEMS AND OVERSIGHT.

WITH YOUR PERMISSION, I WILL DISCUSS THE MAJOR PROPOSALS FOR THE FRINGE BENEFIT PROGRAMS AND THEN TURN TO THE SUBJECT OF FEDERAL EMPLOYEE PAY.

RETIREMENT

JUST A FEW YEARS AGO, A NEW RETIREMENT SYSTEM WAS CREATED TO COVER FEDERAL EMPLOYEES HIRED ON OR AFTER JANUARY 1, 1984. THAT NEW SYSTEM MORE CLOSELY PARALLELS PRIVATE SECTOR PRACTICE THAN THE OLDER CIVIL SERVICE RETIREMENT SYSTEM, WHICH RETAINS EXCESSIVELY COSTLY FEATURES THAT WERE NOT INCORPORATED INTO THE NEW SYSTEM. FOR EXAMPLE, VERY FEW PRIVATE PENSIONS ARE FULLY AND AUTOMATICALLY ADJUSTED FOR INFLATION, YET COST-OF-LIVING ADJUSTMENTS UNDER THE OLD RETIREMENT SYSTEM CONTINUE TO BE LINKED TO THE TOTAL CHANGE IN THE CONSUMER PRICE INDEX.

IN ORDER TO PROVIDE CONSISTENCY AND EQUITY WITHIN THE FEDERAL SERVICE, WE ARE AGAIN SUBMITTING LEGISLATION TO REVISE THE METHOD OF COMPUTING COST-OF-LIVING ADJUSTMENTS UNDER THE OLD CIVIL SERVICE RETIREMENT SYSTEM TO CONFORM WITH THE "CPI-MINUS-ONE" FORMULA USED IN THE NEW FEDERAL EMPLOYEES' RETIREMENT SYSTEM. IN ADDITION, COST-OF-LIVING ADJUSTMENTS WILL BE PRECLUDED FOR FISCAL YEAR 1990 UNDER THE CIVIL SERVICE RETIREMENT SYSTEM, THE FEDERAL EMPLOYEES' RETIREMENT SYSTEM, AND OTHER RELATED RETIREMENT SYSTEMS FOR FEDERAL EMPLOYEES. SUCH EFFORTS TO REDUCE THE RATE OF GROWTH IN FEDERAL RETIREMENT OUTLAYS ARE AN ESSENTIAL PART OF THE ADMINISTRATION'S DEFICIT REDUCTION EFFORTS.

WE ARE ALSO PROPOSING TO REQUIRE THE POSTAL SERVICE AND THE DISTRICT OF COLUMBIA GOVERNMENT TO PAY FULLY FOR THE COST-OF-LIVING ADJUSTMENTS IN RETIREMENT BENEFITS FOR THEIR ANNUITANTS. BY MANDATING THESE ADDITIONAL CONTRIBUTIONS, WE WILL REDUCE THE SUBSTANTIAL HIDDEN SUBSIDIES TO THESE ENTITIES.

IN ADDITION, WE ARE PROPOSING TO REMOVE FROM THE OLD AND NEW RETIREMENT SYSTEMS PROVISIONS WHICH PERMIT EMPLOYEES TO WITHDRAW ALL OF THEIR CONTRIBUTIONS TO THE SYSTEMS IN A LUMP SUM AT THE TIME OF RETIREMENT. ELIMINATION OF THESE PROVISIONS WOULD NOT REDUCE THE LIFETIME VALUE OF ANNUITANT PENSION BENEFITS. FURTHER, THERE IS VIRTUALLY NO PARALLEL IN PRIVATE SECTOR RETIREMENT SYSTEMS. THE LUMP-SUM PROVISIONS ARE EXTREMELY COSTLY AND THEIR ELIMINATION WOULD SAVE MORE THAN $2 BILLION IN FISCAL YEAR 1990 ALONE.

HEALTH BENEFITS

IN APRIL OF LAST YEAR, OPM RELEASED A COMPREHENSIVE EVALUATION OF THE FEDERAL EMPLOYEES HEALTH BENEFITS (FEHB) PROGRAM. THAT REPORT, PREPARED BY AN OUTSIDE EMPLOYEE BENEFITS CONSULTANT, CONCLUDED THAT, UNLESS THERE IS SUBSTANTIAL AND FUNDAMENTAL CHANGE, THE PROGRAM WILL CONTINUE TO GROW MORE AND MORE EXPENSIVE--UNNECESSARILY EXPENSIVE--AND LESS AND LESS RESPONSIVE TO THE NEEDS OF ENROLLEES. SUBSEQUENTLY, OPM

INITIATED NUMEROUS EFFORTS TO DEVELOP A BROAD-BASED CONSENSUS ON FEHB REFORM. APART FROM THESE LARGER CONSIDERATIONS, CERTAIN CHANGES ARE CLEARLY IN ORDER IMMEDIATELY. WE WILL SOON BE SUBMITTING LEGISLATION TO CHANGE THE METHOD OF COMPUTING THE GOVERNMENT'S PREMIUM CONTRIBUTIONS. THE CURRENT FORMULA WAS ESTABLISHED IN 1970, AT A TIME WHEN ONLY ONE-SEVENTH AS MANY PLANS PARTICIPATED IN THE PROGRAM AND WHEN A MAJORITY OF ENROLLEES WERE IN THE HIGH OPTIONS OF A HANDFUL OF THE LARGEST PLANS. BY CHANGING TO A WEIGHTED AVERAGE APPROACH THAT REFLECTS THE PREMIUMS OF ALL PLANS IN THE PROGRAM AND THE CONTRIBUTION OF ENROLLEES AMONG THOSE PLANS, OUR PROPOSAL WILL MAKE THE PROGRAM REFLECT CURRENT REALITIES.

OUR PROPOSAL WOULD ALSO REQUIRE THE POSTAL SERVICE AND THE D.C. GOVERNMENT TO PAY GOVERNMENT CONTRIBUTIONS TOWARD HEALTH BENEFITS COVERAGE FOR THEIR ANNUITANTS AND THEIR SURVIVORS. THIS, AGAIN, WOULD ELIMINATE A HIDDEN SUBSIDY TO THESE ENTITIES, AND WOULD COMPLETE AN ACTION CONGRESS BEGAN IN 1986, WHEN THE POSTAL SERVICE WAS REQUIRED TO PAY FOR HEALTH BENEFITS OF POSTAL EMPLOYEES RETIRING AFTER OCTOBER 1986.

PAY

THE ADMINISTRATION CONTEMPLATES A PAY INCREASE OF 2 PERCENT, EFFECTIVE IN JANUARY 1990, FOR ALL FEDERAL CIVILIAN EMPLOYEES. AS ALWAYS, THE FINAL DECISION ON THE PAY ADJUSTMENT FOR WHITE-COLLAR WORKERS WILL BE MADE BY THE PRESIDENT IN LATE SUMMER, AS THE LAW PROVIDES, AFTER HE REVIEWS THE REPORTS OF HIS PAY AGENT AND THE ADVISORY COMMITTEE ON FEDERAL PAY, AND AFTER CONSIDERATION OF PREVAILING ECONOMIC CONDITIONS.

IN RECENT YEARS, CONGRESS HAS CONSISTENTLY PROVIDED THAT LIMITATIONS AND DELAYS OF WHITE-COLLAR PAY ADJUSTMENTS THROUGH ALTERNATIVE PLANS SHOULD BE EXTENDED TO APPLY TO FEDERAL BLUE-COLLAR WORKERS AS WELL, BUT THIS HAS REQUIRED SEPARATE ACTION BY CONGRESS EACH YEAR. TO DEAL WITH THIS SITUATION, WE WILL SUBMIT PROPOSED LEGISLATION TO REQUIRE OPM TO TAKE THE NECESSARY ADMINISTRATIVE ACTIONS TO EXTEND AN ALTERNATIVE PLAN TO APPLY TO BLUE-COLLAR WORKERS. IN ADDITION TO BLUE-COLLAR WORKERS, THIS AUTHORITY WOULD ALSO COVER TEACHERS IN DEFENSE DEPARTMENT OVERSEAS SCHOOLS. THIS WOULD ENSURE EQUITABLE TREATMENT OF ALL FEDERAL EMPLOYEES EACH YEAR WITHOUT REQUIRING NEW LEGISLATION EVERY YEAR.

THANK YOU. WE WOULD BE HAPPY TO ANSWER ANY QUESTIONS THE SUBCOMMITTEE MAY HAVE.

Mr. ACKERMAN. We greatly appreciate that. The committee continues to hear reports of agency difficulties in recruiting and retaining quality employees. With the President's pay agent reporting a 26 percent pay gap already, do you think that a 2 percent raise will help the government with its recruiting problems, as severe as they have been?

Mr. INGRASSIA. In the first place, Mr. Chairman, the 2 percent in the President's budget is a tentative figure as it always is, because the President's final decision is made in August, after reviewing the report of his pay agent and the Advisory Committee on Federal Pay and reviewing economic conditions. Then the President makes a final decision on the alternate pay plan.

Mr. ACKERMAN. Do we have a tentative figure for inflation?

Mr. INGRASSIA. The figure in the budget is included for budgetary purposes, but it states, Mr. Chairman, in the budget that a final decision will be made as provided for under law.

Mr. ACKERMAN. I understand and appreciate that, but the question basically is, we usually make guesses as to what inflation is going to be as well. Does the Administration have a guess, optimistic or pessimistic, as to what inflation is going to be this year?

Mr. INGRASSIA. No, I do not have a figure on that, Mr. Chairman.

Mr. PREBIS. I believe it is in the 3.5 percent range, Mr. Chairman. About 3.5 percent.

Mr. ACKERMAN. That is an optimistic figure, is it?

Mr. INGRASSIA. It is hard to say.

Mr. ACKERMAN. We would be happy with that number?

Mr. INGRASSIA. It is hard for me to say how the new Administration would view that figure, sir.

Mr. ACKERMAN. It would be much more encouraging if that 2 percent, although that is not written in stone, was somehow correlated somewhat to at least inflation. If the private sector keeps up with inflation, and we have to presume that they are at least intelligent enough to try to do that, federal employees, if this target of 2 percent that the Administration is looking at as opposed to 3.5 percent inflation, would be another point and a half behind the private sector, would they not? I mean, if those projections hold up?

Mr. INGRASSIA. If those projections on the cost-of-living increase prove correct, and if the 2 percent figure is the final figure and if there were no other movements in federal pay that would offset the difference, then it would increase the gap. Of course, we have——

Mr. ACKERMAN. How does that help us with recruitment?

Mr. INGRASSIA. Well, these are difficult times, Mr. Chairman, with the budget situation as it is, and we are trying through various means to do all that we can to help in the recruitment and retention of federal employees.

Mr. ACKERMAN. But we fall further behind, both in the spiritual, if I could paraphrase what I thought I heard Congressman Hoyer say earlier, in our expression of our appreciation to our employees. I came down here by train yesterday because some folks felt very abandoned by the management that they worked for and very, very demoralized, if we do that to our federal work force by letting them know we do not appreciate them, and then we pay them less and other people are offering to pay them more, I do not under-

stand, as difficult as these times might be, how we make them better. If I were building a private company I think I would look to get the strongest people I could in there and let them know that I appreciate them and get more productivity out of them. Would that not be an appropriate approach?

Mr. INGRASSIA. I can understand what you are saying, Mr. Chairman. We are doing all that we can within the present budget restrictions. There clearly are problems that vary from one geographic area to another, from one occupation to another, and we are trying to address the most serious problems.

Mr. ACKERMAN. I know the New York Federal Executive Board has asked OPM for special pay rate authority for all federal occupations in the New York City area. Could you tell the subcommittee the status of that request?

Mr. INGRASSIA. Yes, Mr. Chairman, we have been working with the Federal Executive Board in New York City. Originally, the proposal from the FEB in New York was for a 25 percent across-the-board increase. We acknowledge that they have serious problems in New York City, although they vary from occupation to occupation and from grade to grade.

The across-the-board 25 percent increase, if it were eventually requested by agencies and approved, would amount to $150 million, and the agencies that we have talked with at headquarters do not feel that they have within their budgets the money to authorize payment of that large an across-the-board increase.

Therefore, we have worked closely with the agencies and with the New York FEB and they are in the process now of attempting to determine what occupations and what grades present the most serious problems, and then within the available resources and the agencies' priorities they will make recommendations to OPM on special rates. As we have in the past we will try to be as responsive as possible.

Mr. ACKERMAN. How far are you willing to go? You can talk in dollars or percent, if you like.

Mr. INGRASSIA. Well, I cannot really, because the way the process operates we have to wait for the agencies to determine what they feel they need and what they can afford and then make a recommendation to us. We have no separate money in the budget for special rates.

That money is in individual agency budgets, and this year, with the 4.1 percent increase already being absorbed 100 percent in agency budgets, it makes it difficult to continue to absorb a special pay raise. But the agencies and we are trying to put the dollars where they can do the most good.

Mr. ACKERMAN. Do you suspect, or expect, that there will be increases in certain areas?

Mr. INGRASSIA. Oh, I think so. As a matter of fact we have many employees in the New York City area on special rates already and we have had other occupations that have been approved in the period that the FEB has been seeking across-the-board increases. We have dealt with those needs that the agencies have brought to our attention.

Mr. ACKERMAN. The question is not retrospective but prospective. Do we expect to see some increases?

Mr. INGRASSIA. Yes. I would expect to see some increases when the requests come in, pinpointed to the particular occupations and grades where the greatest problems are.

Mr. ACKERMAN. Mrs. Morella?

Mrs. MORELLA. Thank you. I am not sure I understand. I am glad you used the term "draft," when you said 2 percent, but why is 3.6 percent recommended for military personnel? Are we making any value judgments? I do not understand the logic to it.

Mr. INGRASSIA. Well, I do not know that I can answer that question, Congresswoman. The President's budget does draw that distinction between the military and the civilian. I can speak only to the civilian increase; what the problems are in the volunteer army, what the needs are, what the budgetary resources available are, I am really not in a position to speak to that.

Mrs. MORELLA. Because, ironically, then when they retire they are all thrown together and they are going to experience a freeze according to that draft budget. You see what I am saying?

Also, I do not know what kind of input you have had with regard to the budget, but again, the fact is that there is a freeze for one year for federal COLA's. Then you have another group, the Social Security recipients, that are going to have the untouched cost-of-living adjustment. Do you see an inequity in that? I am just throwing all the questions out to whoever the expert is, whoever wants to answer.

Mr. JULIUS. In looking at how COLA's have been distributed over the years, we find over the past 15 years that Social Security recipients have received 20 percentage points less in COLA's than federal employees. We think that is at least one good reason to begin to address the problem of that imbalance. We also have an imbalance between the old system retirees and the new system retirees that needs to be addressed, and in addition to that, we find that private sector pensioners receive COLA's much less—the COLA's on their employer's pension—far less than those in the federal government. For these kinds of reasons, we think it is appropriate to at least propose that there be a one-year freeze in fiscal 1990 and also a "CPI minus one" COLA formula in subsequent years.

Mrs. MORELLA. Is this violative of a contract that had been made? I realize government can do that, but nevertheless has there not been a contract that was made for the cost-of-living adjustments?

Mr. JULIUS. There are some people that feel there is an implied contract that has been made, but for at least some group of federal employees, when they joined the federal force, there were no COLA's. Automatic COLA's have only been in effect since 1966, so they have had the benefit of improvements in their contract and now we are at a point where we need to make an adjustment to address the imbalances between them and others, and also to address the difficult budget problem we have.

Mrs. MORELLA. The taxation of the pensions, both Social Security and the federal annuities, are not taxed on the same level. Is that correct?

Mr. JULIUS. That is correct.

Mrs. MORELLA. So you do have an inequity right there, too, which is balanced in favor of the Social Security recipient. Right?

Mr. JULIUS. That is correct, but that is a result of a revenue policy of the government which I am afraid I cannot address.

Mrs. MORELLA. Maybe you might want to get to us what you consider the kind of catch up; when you said between the Social Security and the annuitant monies, you talked about it being a kind of catch up in a way, that the federal annuitant would receive less now, you indicated Social Security recipients had been receiving much less than they should have.

Mr. JULIUS. In terms of COLA adjustments, that is correct.

Mrs. MORELLA. In terms of COLA adjustments. If you would get that information to us I think it would be of some interest.

Mr. JULIUS. Yes, ma'am.

[The information follows:]

Comparison of Social Security and Civil Service COLA's For the Years 1973 - 1988

	Social Security Administration			Office of Personnel Management		
	Mo/Yr	COLA	Compounded COLA	Mo/Yr	COLA	Compounded COLA
1973		0.0%		7-73	6.1%	6.10%
1974	6-74	11.0%	11.00%	1-74	5.5%	11.94%
				7-74	6.3%	18.99%
1975	6-75	8.0%	19.88%	1-75	7.3%	27.67%
				8-75	5.1%	34.18%
1976	6-76	6.4%	27.55%	3-76	5.4%	41.43%
1977	6-77	5.9%	35.08%	3-77	4.8%	48.22%
				9-77	4.3%	54.59%
1978	6-78	6.5%	43.86%	3-78	2.4%	58.30%
				9-78	4.9%	66.06%
1979	6-79	9.9%	58.10%	3-79	3.9%	72.54%
				9-79	6.9%	84.44%
1980	6-80	14.3%	80.71%	3-80	6.0%	95.51%
				9-80	7.7%	110.56%
1981	6-81	11.2%	100.95%	3-81	4.4%	119.83%
1982	6-82	7.4%	115.82%	3-82	8.7%	138.95%
1983	12-83	3.5%	123.37%	3-83	3.9%	148.27%
1984	12-84	3.5%	131.19%	12-84	3.5%	156.96%
1985	12-85	3.1%	138.36%	12-85	0.0%	156.96%
1986	12-86	1.3%	141.45%	12-86	1.3%	160.30%
1987	12-87	4.2%	151.60%	12-87	4.2%	171.23%
1988	12-88	4.0%	161.66%	12-88	4.0%	182.08%

Differential during 1973 - 1988 period: **20.42%**

Mrs. MORELLA. On page 3 of the testimony, Mr. Prebis, I do not understand what we mean in the first paragraph.

It says we are proposing to require the Postal Service and the District of Columbia government to pay fully for the cost of living adjustments and retirement benefits for their annuitants. Now, are we talking about postal reorganization, pre-1970 retirees? Could you explain the distinction? The Postal Service and then the District of Columbia government——

Mr. PREBIS. Mrs. Morella, I will ask Mr. Julius to follow up on that, or Mr. Titus.

Mr. TITUS. Yes, I can answer that. The proposal that is described there is to have both the District of Columbia government and the United States Postal Service fund the retirement costs associated with cost-of-living increases which are granted to the retirees from those two organizational entities.

Currently, the D.C. government under the Civil Service retirement system pays the 7 percent matching agency contribution that most agencies pay. The actual cost of the retirement benefit, though, is much larger than the 7 percent that is contributed by agencies and the matching 7 percent that is contributed by employees.

For federal employees at large, most of that difference is made up by direct payments, from the Treasury, and those payments to the extent that they finance additional COLA costs associated with D.C. government employees, constitute a subsidy to the D.C. government, and the proposal is to end that subsidy.

For the Postal Service the situation is somewhat different. The Postal Service does make additional payments under current law for the pay raises granted to its employees, but even with those additional payments the cost borne by the Postal Service for its current employees and retirees is less than the actual cost of the retirement benefits provided to them.

Again, much of that difference is made up by direct payments from the Treasury Department. The proposal would be to eliminate those payments associated with the postal employees and to substitute payments directly from the Postal Service.

Mrs. MORELLA. How much money are you talking about in each of those areas? You must have some computations about what you think will be saved.

Mr. TITUS. The payment——

Mrs. MORELLA. Is this a surprise to them? Does this come as a jolt to them?

Mr. TITUS. No, I do not think so. The proposal is not new in terms of the current budget. The proposal was made initially, I believe, in the last year's budget, so it is not brand——

Mrs. MORELLA. So it is getting to be an older idea. It was rejected last year.

Mr. TITUS. Well, it is not a new idea. The increase in payments from the D.C. government would basically be $6 million in fiscal year 1991. The increase associated with postal employees is $225 million in fiscal year 1991.

Mrs. MORELLA. There are so many questions we could ask you about why this and why that, but as you know, I represent a lot of federal employees and retirees, probably close to 89,000 altogether.

I also serve on Science, Space and Technology Committee where right now we have a meeting going on on the National Institute of Standards and Technology and we have NASA. These are all federal employees. NIH is in the district I represent.

Boy, are we having a tough time recruiting—recruiting the people that we need for all of these very important parts of the American system. We have trouble keeping them at the top, we have trouble because a number of people who already could retire, may retire. We have a problem with even recruiting entry-level, and sometimes when we can recruit we lose them after we train them, because they go off to the private sector.

I find this to be an horrendous, desperate kind of problem. Do you not find it to be the same thing from what you hear from the various agencies on both sides? I am talking about the entry-level, the person with the skills who will stay, and I am talking about those people who have become experts in their area.

That is another concern I have, too—finding out we do not even have a manager for the Hubble Space Telescope scheduled to go up in the fall because we cannot hire the right person for the job. Some jobs are being done by contracting out, which ends up costing the taxpayer more money because we cannot get the experts to stay within government. I find this to be a major problem. So I throw it open to you, if you have any comments about whether you would agree.

Mr. INGRASSIA. Well, we certainly agree that there are problems in recruiting and staffing in certain occupations and certain localities in the federal government, and we have been trying to address that.

For example, in recent years the previous Administration has sought legislation that would permit agencies to give recruitment and retention bonuses for hard-to-staff positions; to hire at all grades, at any step in the grade, because we do find we have particular problems at the entry-level; to provide more incentives through performance-based pay.

We have experimented with demonstration projects. As a matter of fact, we have just approved in concept a demonstration project in NASA as an effort to deal with some of these problems and we have embarked on a rather massive study of the federal white-collar pay system with an effort to see whether we cannot marshall the facts and the support for significant changes in the pay system that would put more emphasis on market conditions, such as where pay is higher in certain geographic areas and where pay is higher in certain occupations, and where pay is higher at one end of the occupation than another end.

So yes, we agree that there are problems. We are trying to deal with them. We hope that we can work closely with Congress in addressing them.

Mrs. MORELLA. It appears as though we are looking at the road of exceptions here, there and everywhere, which is a band-aid approach, and even then the band-aid becomes pretty loose. I think we must have an overall policy about retention and recruitment. Starting off with 2 percent pay raises probably is not the way to do any initial encouraging. Does anyone else have any comments that you want to offer? Incidentally, is NASA going after the program

that NIST is using—National Institute of Standards and Technology?

Mr. INGRASSIA. We are working on the NIST demonstration project. We are working closely with NIST and Commerce on that. We hope to learn whether those particular approaches that they are using there, the total compensation comparability, the recruitment and retention situation, particular differentials for supervisors and others, are working. We expect to have our first-year evaluation ready in the near future, and that of course is a five year program that is mandated by Congress.

Mrs. MORELLA. Mr. Chairman, my overall question is, why these cutbacks? But I am going to defer to the chairman.

Mr. ACKERMAN. Thank you very much. I want to ask, not a different question, but I want to ask the same question because I was not sure that I either heard or understood the answer, and that is the differential here with regard to the military budget being increased a proposed 3.6 percent.

I am trying to get an understanding of where the Administration is coming from with the reasoning and suggesting at this point only 2 percent for civilian federal employees. Looking at the military, it cannot be a problem with recruitment because if there is really an emergency we know how to get those people into the military and it cannot be a problem with retention, because we are not losing a lot of those people to competing Armies.

I would think that that 3 percent, 3.5 percent, has to be basically because we want to improve on and increase the morale, unless there is another option that I did not think about. And if it is important to increase the morale and there is no concern about recruitment and retention in that industry, is it not just as important to increase and improve upon the morale of our civilian work force, and is it not even more demoralizing when they see they are sliding backwards compared to everybody else both in the military and in the private sector?

Mr. INGRASSIA. Mr. Chairman, I can hear you, and I know your concerns there and I know the concerns of federal civilian employees, but as I indicated previously I am not in a position to address the issue of decisions made on military pay as stated in the President's budget. It reflects——

Mr. ACKERMAN. No, I am not—you know, I do not want us to be piranhas here and eat each other. I am not suggesting you decrease that. I mean, those guys and gals are worth every nickel that we give them, I am sure.

What I am suggesting is that we have to have somewhat of an evenhanded approach, and whereas you are not the right person to address that increase or that level of funding, hopefully you are here to address civilian employees, and one impacts upon the other.

I mean, you talk about morale. If everybody has to sacrifice, then great, everybody has to sacrifice. Is there not a message, I guess is what we are asking, or, I guess we are telling you that there is a message and maybe you cannot answer the question so I will make a statement.

The Administration is sending out clear signals that it does not appreciate its federal civilian employees as much as it appreciates

others, and that is very demoralizing, I think. I am told by the National Institutes of Health that they have not been able to attract a single senior research person in 10 years.

I mean, this is a big country. It is a great country, America, and if this great employer of ours, the federal government, cannot attract one single person out of this whole universe of, what do we have, 250 million people, or going close at 250 million people, if America cannot hire one person because the competition is too tough out there, we are doing something wrong. That is just one example. Maybe you can straighten me out.

Mr. INGRASSIA. We hear your concerns.

Mr. ACKERMAN. Well, I hope you relay them.

Mr. INGRASSIA. In the NIH thing, I might say of course the Administration supported and Congress passed continuation of the allowances, if you are talking about physicians here, up to——

Mr. ACKERMAN. But continuation of allowances means more of the same. I mean, we are just—I mean you have got 10 holes to plug. There is a drain going on.

Mrs. MORELLA. Mr. Chairman, would you yield for just a moment? Just recently it was aired in fact that at NIH during the prolonged pay raise debate, that a scientist left to go to Georgetown University Hospital, tripled his salary, he brought along with him 46 other scientists. This just happened.

Not only that, but looking at the figures, you know whether we have got this additional ability to put a little more compensation here and there. In the last decade 28 percent of the top scientists at the National Institutes of Health have left and they have increased their salary in so doing 50 to 300 percent.

Now, we are not saying that there will be total equity, but this ties in with trying to refute what you say about whether what we are doing here and there is adequate. It is not adequate. Thank you, Mr. Chairman.

Mr. INGRASSIA. Congresswoman, I would point out also—and Mr. Chairman—that the Administration was concerned and did attempt to deal with that in the proposal that was submitted by President Reagan that would have increased SES pay rather significantly, and unfortunately that was not approved.

But President Bush has mentioned his interest in continuing to work towards equitable pay. That would be a significant area, because this does address the problems of very unique and highly talented individuals such as at NIH.

Mr. ACKERMAN. It basically points out the problem but it is not significantly embarrassing enough to make any great changes in the system. I mean, if some general left with some battalion to join somebody else's organization, you know, we would order them shot at dawn, first of all, and I am sure we would be able to recruit another general.

Well, I thank you very much for being with us this morning.

Mr. INGRASSIA. Thank you, Mr. Chairman.

Mr. ACKERMAN. We have some additional questions for OPM that we will be glad to forward you for the record that you can respond to at the appropriate time.

[The material referred to follows:]

United States
Office of
Personnel Management

Washington, D.C. 20415

In Reply Refer To: Your Reference:

APR - 4 1989

Honorable Gary L. Ackerman
Chairman
Subcommittee on Compensation
and Employee Benefits
Committee on Post Office
and Civil Service
U.S. House of Representatives
Washington, D.C. 20515

Dear Mr. Ackerman:

Enclosed are OPM's responses to the questions you sent following my appearance at the Subcommittee's hearing concerning the Administration's fiscal year 1990 budget proposals affecting Federal employees.

I appreciated the opportunity to appear before the Subcommittee, and am pleased to provide this additional information for the record.

Sincerely,

E. John Prebis
Associate Deputy Director
for Planning and Budget

Enclosure

RESPONSES TO QUESTIONS FOLLOWING HEARING
ON FISCAL YEAR 1990 BUDGET PROPOSALS
AFFECTING FEDERAL EMPLOYEES

1. Q. In 1987, OPM testified that altering the health benefits premium formula would result in premium increases of 8 percent for Federal employees and retirees, and 24 percent for postal employees and retirees. Does OPM have similar projections for the proposal this year?

   A. Based on the current enrollment data for the Federal Employees Health Benefits Program, we estimate that the weighted average proposal would increase premiums for postal employees by 38 percent, non-postal employees by 11 percent, and annuitants by 8 percent. The weighted average formula by design recognizes enrollment distribution among the various plan options available within the Program and thus can be expected to yield different results should major enrollment shifts occur during the annual open season.

2. Q. As you know, both OPM and the Committee are currently working on reform of the Federal Employees Health Benefits Program. Would it not be premature to change the formula while we are in the process of reforming the entire program?

   A. The weighted average proposal is an opportunity to halt the disproportionate shift of costs from the employee to the Government that prevails under the current "Big Six" formula used to calculate the Government's contribution toward health benefits. For example, Congressman Hoyer testified that the average employee contribution doubled over the past ten years. However, in that same time period, the Government contribution has tripled. A weighted average approach to setting the Government contribution would be compatible with a number of FEHB Program designs, and would more accurately reflect the current and future distribution of enrollees among the health plans. Its enactment should not preclude or conflict with additional needed reforms of the FEHB Program.

3. Q. The Administration proposes to eliminate the lump-sum benefit, citing the cost of providing such payments. Isn't it true that, in the long run, the lump-sum benefit is a savings to the Government because retirees who take the lump-sum have a smaller annuity on which future COLA's are based?

A. In theory, over time the lump-sum benefit is cost-neutral to the retirement program. The actuarial reduction applied to the annuities of retirees electing the lump-sum payment assumes group mortality rates as well as future COLA's that would have been paid had the election not been made. Thus, the payout over the lifetime of the annuitant under either scenario would be the same. In terms of the impact on the budget deficit, however, since the lump-sum provision offers an immediate payout of the lifetime contributions of the individual rather than payments made incrementally over a period of 15-20 years, these payouts add significantly to the deficit in 1990 and over the next several years.

4. Q. Former President Reagan's Fiscal Year 1990 budget proposes a January 1990 effective date for elimination of the lump-sum benefit. President Bush's budget submission for Fiscal Year 1990 is unclear as to the effective date of the proposed lump-sum repeal. Can OPM clarify when the proposed repeal would be effective?

A. The reference to the January 1990 effective date in President Reagan's budget was an error, since it was intended that the elimination of the lump-sum alternative apply to annuities commencing on or after July 1, 1989, and the savings estimates in the Reagan budget were based on that effective date. President Bush's proposal for eliminating the lump-sum alternative continues this July 1, 1989, effective date. The July 1, 1989, effective date was selected in order to effect a full-year savings (12 months) during fiscal year 1990. The proposed effective date recognizes the extended timeframe involved in processing FY 1989 lump-sum elections caused by the 30-plus day election period granted to annuitants considering the alternative benefit options available.

Mr. ACKERMAN. The next witness will be H. T. Steve Morrissey, President of the National Association of Retired Federal Employees. Steve, welcome. Please introduce your associates.

STATEMENT OF H. T. STEVE MORRISSEY, PRESIDENT, NATIONAL ASSOCIATION OF RETIRED FEDERAL EMPLOYEES, ACCOMPANIED BY H. L. RIPPLE, VICE PRESIDENT; AND MARSHALL WHITTMANN, LEGISLATIVE DEPARTMENT

Mr. MORRISSEY. Thank you, Mr. Chairman. On my right is our vice president, Mr. H. L. Ripple. On my left is Mr. Marshall Whittmann from our legislative department.

I want to say good morning to the chairman and the distinguished members of this committee. If I have to cough, I apologize in advance, because I think I am on the verge of catching a cold.

I would also like to preface my remarks that my entire statement would be entered into the record.

What I am about to address this committee is a brief version of that entire statement.

Mr. ACKERMAN. Without objection your entire statement will be made a matter of the record.

Mr. MORRISSEY. Thank you, Mr. Chairman.

I am Steve Morrissey, President of the National Association of Retired Federal Employees, NARFE, as we refer to it. On behalf of 2 million federal retirees we appreciate this opportunity to present our views on the President's fiscal year 1990 budget proposals. This issue is of paramount concern to all federal retirees, including one half million NARFE members.

Taking a page out of President Reagan's final budget play book, the Bush Administration proposes to eliminate the January 1990 cost of living adjustment for federal retirees and to reduce permanently all subsequent COLA's, and at the same time raising the amount many would pay in health insurance premiums. These have been previously proposed by the White House and previously rejected by Congress.

It is patently unfair to balance the budget on the backs of federal retirees who rely on fixed incomes. We cannot put our Nation's fiscal house in order by disordering the financial status of this group of older Americans.

While the Administration and the Congress have recognized the importance of COLAs as inflation protection for the Social Security system, too often a politically-motivated double standard has been applied to federal annuities.

Rather than seeking and implementing a fair deficit reduction policy a cynical political calculation has been made based on the fact that there are 37 million Social Security recipients while there are only 2 million Civil Service annuitants.

We noted with some irony that President Bush in his budget address proclaimed that he would not tamper with Social Security benefits because he viewed Social Security as a "moral contract with older Americans." Yet Civil Service retirement is just as much a moral contract with federal annuitants as Social Security is with private sector retirees. Still, the political arithmetic of the

number of Social Security recipients evidently outweighs adherence to the terms of the same moral contract with federal retirees.

The COLA in federal annuities has been under a prolonged legislative attack since 1976. Just in the past eight years federal annuitants have seen their inflation protection diminished by a number of changes. These include change from a semiannual to an annual COLA, a delay in the effective date of COLAs on two occasions, a reduced COLA for retirees under age 62, and cancellation of the 1986 COLA on the very eve that it was to be put into effect.

Federal retirees have had to absorb 35 percent of the price increase measured since the beginning of 1983, and have consistently had to do battle for the 65 percent inflation protection we have had. These are permanent losses in the purchasing power of this group of older Americans, who have been compensated for less than two thirds of the measured inflation.

We believe that it is clearly unfair that federal retirees are denied full inflation protection because they worked for Uncle Sam while their next door neighbors receives full COLAs because they worked in the private sector.

I ask this committee—or, I point out to this committee—inflation does not discriminate; neither should inflation protection. Any deficit reduction proposal which defies this principle is contrary to fairness and justice.

The Bush budget proposes not only eliminating the 1990 COLA but basing future inflation adjustments on a CPI minus 1 percent formula. Over a period of time this formula would have a far more devastating effect on the purchasing power of annuities than a one year cancellation. The CPI minus 1 formula represents a compounding and continuous reduction in real dollar value of any annuity.

Therefore, based upon life expectancy projections, younger retirees—in many cases those retired on disability and women, including survivors, would suffer the most from such a proposal. Presidential rhetoric aside, it is hard to argue that the CSRS COLA should be brought into line with the COLA applied to the defined benefit portion of the Federal Employees Retirement System. In other words, the FERS.

The CPI minus 1 formula for that program was based on the assumption of a fully-indexed Social Security base and the option of electing additional retirement income from a thrift plan. When the 99th Congress enacted the FERS system for new employees in 1986, it recognized these major differences and chose not to extend the new COLA formula nor any other part of the FERS program to current retirees. NARFE therefore submits that it would be totally inappropriate and unacceptable to apply the FERS formula on the CSRS system.

NARFE is also deeply concerned about the President's proposal to reduce the government's contribution to the federal employees health benefits program by $318 million, resulting in higher premiums or less health protection for enrollees.

We submit that there is an air of unreality surrounding this proposal. As this subcommittee is acutely aware, FEHBP premiums have soared astronomically in the past two years. We agree that the FEHBP must be reformed and improved to better serve the em-

ployer and enrollees, but to reduce the government's contribution at this time would only result in an untenable financial burden for the millions of covered workers and annuitants.

If adopted, the proposal would only make a bad situation worse. Starting this year, most federal retirees, but more important millions of other senior citizens, will be paying a new, mandatory 15 percent surtax due to the Medicare catastrophic act.

Most of the new benefits of that law are already provided under the FEHBP. In essence, federal retirees are being saddled with a new tax for benefits they already have, and adding insult to injury, the Administration now proposes to hit them again with a stiff price increase for their FEHBP benefits. It is simply a cruel joke that has no federal retiree laughing.

Before closing, we must reiterate that we are particularly disappointed with President Bush's budget recommendations, because it was our hope to open a new, better relationship with this Administration.

Indeed, we were optimistic when President Bush declared in his inaugural address that this was "the age of the offered hand", but federal retirees and employees can only work cooperatively with the new Administration if it is willing to be evenhanded with us all.

Mr. Chairman, the model for such cooperation is this committee, where there has been a firm, bipartisan consensus that federal retirees and employees should get a fair shake. These issues should not pit Democrat against Republican nor liberal against conservative.

These matters are about simple fairness. We cannot justify to federal retirees why they should be denied an inflation adjustment while their friends at the senior center get one because they receive a Social Security check instead of a federal annuity check.

NARFE urges the House quickly to adopt H.R.1074, which has been introduced by Congresswoman Mary Rose Oakar. This legislation would provide COLA equity for all government retirement programs in 1990. A similar bill, S.416, has been introduced in the Senate by Senator Pete Domenici.

Thank you again for this opportunity to present our views. We stand ready to work with this subcommittee and to answer any questions.

[The statement of Mr. H. T. Steve Morrissey follows: Also a letter received subsequent to the hearing is also included.]

STATEMENT OF THE NATIONAL ASSOCIATION OF RETIRED FEDERAL EMPLOYEES
BEFORE THE SUBCOMMITTEE ON COMPENSATION AND EMPLOYEE BENEFITS
ON THE FISCAL YEAR 1990 BUDGET PROPOSALS
TUESDAY, MARCH 7, 1989

I am H. T. Steve Morrissey, President of the National Association of Retired Federal Employees (NARFE) . On behalf of our half-million members, we appreciate this opportunity to present our views on the President's fiscal year 1990 budget proposals affecting federal retirees. This issue is of paramount concern to both our membership and to all the two million federal retirees.

During the 1988 Presidential campaign, we were particularly heartened that both candidates refrained from the "bureaucratic bashing" which has too often marred past election races. There appears to be a growing bi-partisan agreement that respect for public service is an integral factor in the smooth operation of government. However, despite President Bush's inaugural reference to a new breeze blowing in Washington, we can only describe the Administration's budget proposals concerning federal retirees as an "ill wind".

Taking a page out of President Reagan's final budget playbook, the Bush Administration proposes to eliminate the January 1990 cost-of-living adjustment for federal retirees and to reduce permanently all subsequent COLAs, at the same time raising the amount many would pay in health insurance premiums. These are not new proposals. They have been previously proposed by the White House and previously rejected by Congress. With the Adminstration staying the course in proposing, we urge the Senate and the House to do likewise in rejecting. It is patently unfair to balance the budget on the on the backs of federal retirees who rely on fixed incomes. We cannot

put our nation's fiscal house in order by disordering the financial status of this group of older Americans.

We are certainly not oblivious to the fact that our nation faces a serious deficit problem. As parents and grandparents, our members do not want this burden to threaten our economic future and burden our decendants. And there should be no doubt that we have already more than done our part toward deficit reduction.

Year after year, the hard earned benefits of federal retirees have been targeted for budget cuts. Yet, while our retirement compensation has been cut, the deficit has continued to soar. Federal retirees understandably question the presumed relationship between cutting their benefits and reducing the deficit. As Congress cuts, the deficit increases!

Federal retirees have simply lost faith in the proposition that the deficit problem will be tackled in a fair and equitable manner. The most profound reason that annuitants have lost faith in the budget process has been the targetting of our COLAs for cuts while social security recipients have been spared. The most egregious example occurred in 1986 when our COLA was eliminated by the Gramm-Rudman-Hollings deficit reduction law, while social security recipients received a full inflation adjustment. The elimination of the 1986 COLA occurred after its effective date and only three weeks before it was to be paid.

While the Administration and the Congress have recognized the importance of COLAs as inflation protection for the social security system,

too often a politically motivated double standard has been applied to federal annuities. Rather than seeking and implementing a fair deficit reduction policy, a cynical political calculation has been made based on the fact there are some 37 million social security recipients while there are only 2 million civil service annuitants.

We noted with some irony that President Bush in his budget address proclaimed that he would not tamper with social security benefits because he viewed social security a a "moral contract" with older Americans. Yet, civil service retirement is just as much a moral contract with federal annuitants as social security is with private-sector retirees. Still, the political arithmetic of the number of social security recipients evidently outweighs adherence to the terms of the same moral contract with federal retirees.

The COLA in federal annuities has been under a prolonged legislative attack since 1976. Just in the past eight years, federal annuitants have seen their inflation protection diminished by a number of changes. These include: change from a semi-annual to annual COLA; a delay in the effective date of COLAs on two occasions; a reduced COLA for retirees under age 62, and cancellation of the 1986 COLA as a result of the Gramm-Rudman-Hollings Amendment.

Between the first quarter of 1983 and the third quarter of 1988, the CPI-W rose from 292.5 to 350.8, an increase of 19.9 percent.

Adjusting retirement income for inflation in that period, social security benefits increased by 16.2 percent, compensating social security recipients for 81 percent of inflation. However, for the same period, during which inflation increased 19.9 percent, annuities of federal retirees and survivors increased by only 13 percent. Federal retirees have had to absorb 35 percent of the price increase measured since the beginning of 1983, and have consistently had to do battle for the 65 percent inflation protection we have had. These are permanent losses in the purchasing power of this group of older Americans who have been compensated for less than two-thirds of the measured inflation.

We believe that it is clearly unfair that federal retirees are denied full inflation protection because they worked for Uncle Sam while their next door neighbors receive full COLAs because they worked in the private sector. Inflation does not discriminate - neither should inflation protection! Any deficit reduction proposal which defies this principle is contrary to fairness and justice.

The Bush budget proposes not only eliminating the next federal retiree COLA but basing future inflation adjustments on a CPI minus 1 formula. Over a period of time, this formula would have a far more devastating effect on the purchasing power of annuities than a one-time cancellation. The CPI minus-1 formula represents a compounding and continuous reduction in real dollar value of the annuity. Therefore, based on life expectancy projections, younger retirees (in many cases those retired on disability) and women (including survivors) would suffer the most from the proposal.

Presidential rhetoric aside, it is hard to argue that the CSRS COLA should be brought into line with the COLA applied for the defined benefit portion of the Federal Employees Retirement System (FERS). The CPI-minus-1 formula for that program was based on the assumption of a fully indexed Social Security base, and the option of electing additional retirement income from a thrift plan. When the 99th Congress enacted the FERS system for new employees in 1986, it recognized these major differences and chose not to extend the new COLA formula nor any other part of the new program to current retirees.

NARFE therefore submits that it would be totally inappropriate and unacceptable to apply the FERS formula on the CSRS system.

It should be kept in mind that civil service retirement benefits are modest. The average monthly benefit is $1146; for survivors it is only $552. And, unlike tax-preferred social security income, these annuities are subject to taxation.

Earned retirement benefits, of course, are among the most important economic assets of older persons in our society. Indeed for many, they constitute the only income. When the Civil Service Retirement System was established in 1920, Congress recognized that retirement benefits were not a government gratuity, but were critical deferred compensation.

In recent years, the Administration and Congress have exploited the budget process to attempt to make significant policy changes in the

retirement system. Often, the Senate and House Committees which have jurisdiction over the system, have been bypassed either through omnibus budget packages or through the automatic cutback mechanism of the Gramm-Rudman-Hollings deficit reduction law.

These hastily constructed budget gimmicks have made changes in a retirement system that has been carefully crafted over a sixty year period to serve both the government's personnel objectives and the financial needs of government retirees. We believe that before retirement policy changes are made that will have a profound impact on the livelihoods of hundreds of thousands of older Americans, there must be careful scrutiny and study.

NARFE is also deeply concerned about the President's proposal to reduce the government's contribution to the Federal Employees Health Benefits Program (FEHBP) by $318 million, resulting in higher premiums or less health protection for enrollees. We submit that there is an air of unreality surrounding this proposal.

As this Subcommittee is acutely aware, FEHBP premiums have soared astronomically in the past two years. Unlike many health plans in the private sector, the employee or retiree enrollee under FEHBP already pays a sizeable share of the premium.

We agree that the FEHBP must be reformed and improved to better serve both the government and enrollees. But to reduce the government's contribution at this time, would only result in an untenable financial burden for the millions of covered workers and annuitants. If adopted, the proposal would only make a bad situation worse.

Starting this year, most federal retirees, as well as millions of other senior citizens, will be paying a new mandatory 15 percent surtax due to the Medicare Catastrophic law. Most of the new benefits in this law are already provided under the FEHBP. In essence, federal retirees are being saddled with a new tax for benefits they already have. And adding insult to injury, the Administration now proposes to hit them again with a stiff price increase for their FEHBP benefits. It is simply a cruel joke that has no federal retiree laughing.

It is, however, a crying shame that the Administration's budget would undermine FEHBP but fails to address the genuine health need of older Americans which is long-term health care coverage. This coverage for health costs associated with long-term home or nursing home care was also absent from the Medicare Catastrophic law. We are ready to work with this Subcommittee in exploring ways and means of addressing the long-term issue through the FEHBP. But with our insurance coverage already in a constant state of flux, NARFE adamantly opposes any recommendation which would further increase the enrollees' health insurance costs.

NARFE also stands with the other federal employee organizations in urging a more realistic and equitable pay adjustment for federal workers than the Administration has requested. Federal salaries must be brought into line with private industry and the purchasing power of comparable wages must be maintained.

Before closing, we must reiterate that we are particularly disappointed with President Bush's budget recommendations because it was our hope to open a a new, better relationship with this Administration. Indeed, we were optimistic when President Bush declared in his inaugural address that this was "the age of the offered hand". But, federal retirees and employees can only work cooperatively with the new Administration if it is willing to be even-handed with us. Unfortunately, these budget proposals do not represent a propitious beginning.

Mr. Chairman, the model for such cooperation is this Committee where there has been a firm bi-partisan consensus that federal retirees and employees should get a fair shake. These issues should not pit Democrat against Republican nor Liberal against Conservative. These matters are about simple fairness. We cannot justify to federal retirees why they should be denied an inflation adjustment while their friends at the senior center get one because they receive a social security check instead of a federal annuity check. And I don't believe the Administration can provide a justification for such an inequity either.

NARFE urges the House quickly to adopt HR 1074 which has been introduced by Congresswoman Mary Rose Oakar. This legislation would provide COLA equity for all government retirement programs in 1990. A similar bill, S. 416 has been introduced in the Senate by Senator Pete Domenici.

Thank you again for this opportunity to present our views. We stand ready to work with this Subcommittee and to answer any questions that you might have.

NATIONAL ASSOCIATION OF RETIRED FEDERAL EMPLOYEES
1533 NEW HAMPSHIRE AVE., N.W., WASHINGTON, D.C. 20036 AREA CODE (202) 234-0832

H. T. STEVE MORRISSEY, PRESIDENT
H. L. "RIP" RIPPLE, VICE PRESIDENT
GORDON F. BROWN, SECRETARY
BENNY L. PARKER, TREASURER

March 9, 1989

Honorable Gary Ackerman, Chairman
Subcommittee on Compensation & Employees Benefits,
Committee on Post Office and Civil Service
U. S. House of Representatives
Washington, D.C. 20515

Dear Chairman Ackerman:

We appreciated the opportunity to testify before your Committee on the Administration's budget proposals for fiscal year 1990. Your leadership on this issue is greatly appreciated by NARFE.

At the hearing, a representative from the Office of Personnel Management made the assertion that cost-of-living adjustments for the Civil Service Retirement System have been more generous than COLAs for Social Security recipients over the past several years. However, this claim is contrary to the facts. We would like to clarify this matter.

As we pointed out in our testimony, Congress and the Administration in recent years have placed Social Security COLAs off limits to cutbacks, inflation protection for federal annuitants has been severely curtailed. Consequently, an ever widening gap in inflation protection has developed between two groups of older Americans, federal retirees and Social Security recipients.

Examples of the disparity in inflation protection which has occurred as the result of differing COLA policies for Federal retirees and others can be best seen by reviewing the actual COLAs received under the two systems during the past ten years.

The COLA percentages and their effective dates for an individual who retired in 1976 and is still on the retirement rolls would be as follows under the two systems:

Federal Retirement		Social Security	
3/1/77	4.8%	6/77	5.9%
9/1/77	4.3%	6/78	6.5%
3/1/78	2.4%	6/79	9.9%
9/1/78	4.9%	6/80	14.3%
3/1/79	3.9%	6/81	11.2%
9/1/79	6.9%	6/82	7.4%
3/1/80	6.0%	12/83	3.5%
9/1/80	7.7%	12/84	3.5%
3/1/81	4.4%	12/85	3.1%
3/1/82	8.7%	12/86	1.3%
4/1/83	3.9%	12/87	4.2%
12/1/84	3.5%	12/88	4.0%
12/1/85	(Eliminated)		
12/1/86	1.3%		
12/1/87	4.2%		
12/1/88	4.0%		

During the period of time from the first quarter of 1976 through the third quarter of 1988, for which the COLAs listed above assumedly reflect change, inflation measured by the CPI-W rose 109.9 percent. A Federal annuitant who had received all of the COLAs awarded under his or her retirement system would have recognized an annuity increase of 97.8 percent; the Social Security beneficiary receiving all of the above awarded COLAs would have recognized an increase of 103.8 percent in the social security check.

Looking at the results another way, the social security recipient has been compensated for 94.5 percent of the rise in the CPI-W since 1976 while Federal retirees have been compensated for 89.07 percent. If the years prior to 1976 are included, the gap widens further.

The disparity in inflation protection between federal retirees and social security recipients is ever more pronounced over the past five years. Between the first quarter of 1983 and the third quarter of 1988, the CPI-W rose from 292.5 to 350.8, an increase of 19.9 percent.

Adjusting retirement income for inflation in that period, social security benefits increased by 16.2 percent, compensating social security recipients for 81 percent of inflation. However, for the same period, during which inflation 19.9 percent, annuities of Federal

retirees and survivors increased by only 13 percent. Federal retirees have had to absorb 35 percent of the price increase measured since the beginning of 1983, and have consistently had to do battle for the 65 percent inflation protection we have had. These are permanent losses in the purchasing power of this group of older Americans who have been compensated for less than two-thirds of the measured inflation.

Clearly, OPM reversed the actual relationship between the federal retiree and social security COLA. Federal retirees have lagged behind social security recipients in inflation protection due to crude political calculations. We reiterate our position - inflation does not discriminate, neither should inflation protection.

We greatly appreciate your support for this position. We hope that you find this information useful.

Sincerely,

H. T. Steve Morrissey
President

Mr. ACKERMAN. Thank you very much for your testimony, the full text of which is in the record.

It may be the age of the offered hand, but I think that the hand that has been offered is empty. You also stated that you were looking for federal employees to get a fair shake. I think, in the budget document that we received, basically you are being offered a handshake rather than anything else. Your remarks and observations are appreciated by the committee, as is your testimony. Mrs. Morella, any questions?

Mrs. MORELLA. I just wanted to welcome Mr. Morrissey, Mr. Ripple and Mr. Wittman and tell you I thank you very much for your testimony, and that I associate myself with your remarks. No questions, thank you.

Mr. ACKERMAN. Steve, thank you and your team.

Mr. MORRISSEY. Thank you.

Mr. ACKERMAN. The next panel is Moe Biller, President of the American Postal Workers Union, Mr. Vincent Sombrotto, President of the National Association of Letter Carriers and Mr. Glenn Berrien, President of the National Post Office Mail Handlers. Gentlemen, welcome. You may begin.

STATEMENT OF MOE BILLER, PRESIDENT, AMERICAN POSTAL WORKERS UNION

Mr. BILLER. Mr. Chairman and members, my name is Moe Biller, President of the American Postal Workers Union, AFL-CIO, a postal union with over 365,000 active and retired postal workers nationwide.

I am pleased to appear before this committee this morning to comment on the impact of the President's fiscal year 1990 budget proposals on postal and federal employees and retirees. My complete statement has been provided to the committee. I will summarize the statement this morning.

On January 9, 1989, former President Ronald Reagan transmitted his final budget to Congress and with it transmitted his Administration's final wish list of recommended ways of achieving substantial deficit reduction at the expense of postal and federal employees and retirees.

Although President Bush reported that his revised budget would help initiate a kinder and gentler America, the budget plan which he transmitted to the Congress on February 9, 1989, was anything but that for federal and postal workers and retirees. In fact, if the point is to get a kinder and gentler Nation you have to use a big stick over federal and postal employees and the retirees, I think you know the answer.

We find it most interesting that in a budget visibly lacking in specifics, some of the most specific proposals of the new President's budget centered on reducing the benefits of postal and federal workers.

While not embracing the Reagan budget proposals in their entirety, the Bush budget borrows several of the Reagan initiatives to freeze and reduce COLA benefits, repeal the lump sum option and revise the federal employee health benefit formula.

For fiscal year 1990, the President's budget proposes to freeze the cost-of-living adjustments payable to postal and federal annuitants who retire under the Civil Service retirement system.

For fiscal year 1991 and beyond, the President's budget proposes to limit the cost-of-living adjustments for postal and federal retirees, including military retirees, to 1 percent less than the change in the Consumer Price Index.

At the same time the Administration is proposing to freeze and reduce federal retirement COLA's it is proposing to fully fund the Social Security cost-of-living increases estimated at approximately 3.6 percent in fiscal year 1990, and we have no quarrel with that. However, the Administration estimates that the COLA freeze will cost postal, federal and military retirees $1.4 billion in fiscal year 1990.

Beginning in fiscal year 1991, the COLA would be limited to 1 percent less than the change in the Consumer Price Index, and government retirees would be denied less than full inflation adjustments in their retirement benefits in perpetuity. First you freeze them then you offer them diet COLA.

Mr. Chairman, we were highly disappointed that the new Administration, which had during its campaign lauded government service and the workers who performed it, has continued the Reagan legacy of continued and unabated assaults on government workers' retirement benefits. Each year the Reagan Administration budget proposed additional reduction in postal and federal retiree benefits, beginning with the reduction of the semiannual COLA adjustment to one per year in 1982, and continuing through the cancellation of the COLA payable in January 1986 under a Gramm-Rudman-Hollings sequestration order. Reagan Administration actions have resulted in billions of dollars in lost benefits for postal and federal retirees, benefits which can never be regained.

February 20, 1989, the Washington Post in an editorial entitled "Cutting COLAs" challenged the equity of the President's retirement proposals, and we agree with the Post's view of the Bush retirement proposals. It is singularly inequitable to propose freezing one segment of the retirees population cost-of-living adjustments while funding another, and Congress has rejected this approach to budgeting in the years since the first COLA was sequestered in 1986.

Further, just as APWU opposed the reduced COLA formula for post-1984 civilian hires, which was incorporated into the FERS legislation enacted in 1986, so do we oppose the Bush budget proposal to implement this COLA reduction formula for all retirees.

The Administration budget also proposes to repeal the lump sum withdrawal provisions which were authorized by FERS law and made available to all retirees in both the Civil Service and FERS retirement systems. The lump sum option allows postal and federal retirees to withdraw their retirement contributions in a lump sum and elect a reduced annuity based on the remaining contributions.

In light of 1987 Congressional budget reconciliation action, which limited employees' rightful access to their retirement contribution, we believe that it is vitally important that our members retain the option of withdrawing their retirement contributions in a lump sum.

With a lump sum option, retirees who lost the tax-free use of their retirement dollars in 1986 will still be able to make some productive retirement planning decisions which may offset the accelerated tax liability imposed upon them by the Tax Reform Act of 1986.

Another of the Bush Administration's proposals would revise the formula for calculating the government's share of the health benefits cost under the federal employees health benefits program.

Under current law, the government's share of the health benefits premium is based on a simple average of the high option premiums of the health plans offered by the six largest FEHB service providers.

For participants employed by federal agencies the government's contribution averages 60 percent of the premium cost, and we in the Postal Service have negotiated a 75 percent employer contribution for the workers we represent through our collective bargaining agreement with the U.S. Postal Service.

Despite the Administration's assertion that federal employee health benefits programs is too expensive and generous, recent studies of the program by the GAO and other consulting entities have challenged this assertion. In general, these studies have concluded that in comparison with private sector health insurance programs the FEHB participants pay more for their health insurance coverage.

While it is true that the federal employee health benefits program may require some revisions, we would hope that the Congress will undertake any alterations to the program seriously and deliberately and in a comprehensive fashion. We believe that any changes which are enacted to the FEHB program should be calculated to improve the program and not be calculated solely to achieve deficit reduction.

In summary, Mr. Chairman, we are opposed to the Bush budget proposals and would urge that the Congress reject them as it moves toward formulation of a budget and spending plan for the coming fiscal year. Actually, these budget cuts in my opinion are really a tax on federal workers, postal workers and retirees and you can read our lips loud and clear.

[The statement of Mr. Moe Biller follows:]

STATEMENT OF

MOE BILLER, PRESIDENT
AMERICAN POSTAL WORKERS UNION, AFL-CIO

MR. CHAIRMAN AND MEMBERS OF THE COMMITTEE: I am Moe Biller, President of the American Postal Workers Union, AFL-CIO. The American Postal Workers Union is the largest postal union in the country, representing over 365,000 active and retired postal workers nationwide. I am pleased to appear before the Committee this morning to comment on the impact of the President's Fiscal year 1990 budget proposals on the postal and federal employees and retirees.

On January 9, 1989, former President Ronald Reagan transmitted his final budget to Congress, and with it, transmitted his Administration's final "wish list" of recommended ways of achieving substantial deficit reduction at the expense of postal and federal employees and retirees. Included in the final Reagan budget were proposals to:

*Freeze retirement cost-of-living adjustments (COLAs) in the Fiscal Year beginning October 1, 1989, and reduce COLAs in the outyears to one percent less than the inflation rate (CPI minus one);

*Transfer the full cost of postal retiree COLAs to the U.S. Postal Service;

*Repeal the lump-sum option on retirement contributions;

*Reduce the government's contribution to the Federal Employees Health Benefits Program by revising the formula on which the contribution is based from the average of the six largest plans to a weighted average of all of the participating health plans;

*Transfer the full cost of the government's share of annuitants and survivors health benefits costs to the Postal Service; and

*Cap negotiated Postal wages at two percent.

Although President Bush purported that his revised budget would help initiate a "kinder and gentler" America, the budget plan which he transmitted to the Congress on February 9, 1989, was anything but that for postal and federal workers and retirees.

We find it most interesting that, in a budget visibly lacking in specifics, some of the most specific proposals in the new President's budget center on reducing the benefits of postal and federal workers.

While not embracing the Reagan budget proposals in their entirety, the Bush budget borrows several of the Reagan initiatives to freeze and reduce COLA benefits, repeal the lump sum option, and revise the Federal Employee Health Benefits contribution formula.

RETIREMENT PROPOSALS

For Fiscal Year 1990, the President's budget proposes to freeze the cost-of-living adjustments (COLAs) payable to postal annuitants who retire under the Civil Service Retirement System (CSRS), thus denying an inflation adjustment for these retirees in the coming fiscal year. For Fiscal Year 1991 and beyond, the President's budget proposes to limit the cost-of-living adjustments to postal and federal annuitants (including military retirees) to one percent less than the change in the Consumer Price Index (CPI).

At the same time that the Administration is proposing to freeze and reduce federal retirement COLAs, it is proposing to fully fund the Social Security cost-of-living increases, estimated at approximately 3.6 percent in Fiscal Year 1990.

The Administration estimates that the COLA freeze will cost postal, federal, and military retirees $1.4 billion in Fiscal Year 1990. Beginning in Fiscal Year 1991, the COLA would be limited to one percent less than the change in the Consumer Price Index (CPI), and government retirees would be denied less than

full inflation adjustments in their retirement benefits in perpetuity. I have attached as an appendix to my testimony a summary of the benefit losses, in dollar amounts, which would result from enactment of these proposals.

Mr. Chairman, we were highly disappointed that the new Administration - which had during its campaign lauded government service and the workers who performed it - has continued the Reagan legacy of continued and unabated assaults on government retirement benefits.

Each year of the Reagan Administration, the budget proposed additional reductions in postal and federal retirement benefits, beginning with the reduction of the semi-annual COLA adjustment to one per year in 1982 and continuing through the cancellation of the COLA payable in January 1986 under a Gramm-Rudman-Hollings sequestration order.

Reagan Administration actions have resulted in billions of dollars in lost benefits for postal and federal retirees -- benefits which can never be regained.

On February 20, 1989, **The Washington Post**, in an editorial entitled "Cutting COLAs", challenged the equity of the President's retirement proposals stating, in part:

> "...The administration says that federal retirement benefits are too high. But cutting COLAs is an indiscriminate correction...The budget writers also remind us that the civil service and military retirement systems were changed in 1986, so that future retirees will generally be kept a percentage point below the CPI; so why not apply the same rule to current retirees? The answer is that the future retirees know what's coming and have time to prepare; the people now in the free fall of retirement cannot..."

We agree with the Post's view of the Bush retirement proposals. It is singularly inequitable to propose freezing one segment of the retired population's cost-of-living adjustments while funding another, and Congress has rejected this approach to budgeting in the years since the first COLA was sequestered in 1986. Further, just as APWU opposed the reduced COLA formula for post-1984 civilian hires which was incorporated into the Federal Employee Retirement System (FERS) legislation enacted in 1986 (Public Law 99-335), so do we oppose the Bush proposal to implement this COLA formula for all retirees.

The Administration's budget also proposes to repeal the lump-sum withdrawal provisions which were authorized by the FERS law and made available to all retirees in both the CSRS and FERS systems. The lump-sum option allows postal and federal retirees to withdraw their retirement contributions in a lump-sum and elect a reduced annuity based on the remaining contributions.

The 1987 budget "summit" agreement that preceeded Congressional approval of the Fiscal Year 1987 Omnibus Reconciliation Act, limited retirees withdrawal option to 60 percent of their contributions in the first year, and 40 percent in the second year. This revision was enacted on the heels of one of the most divisive legislative battles ever waged over the treatment of Federal pensions -- the repeal of the three year basis recovery rule.

When, in 1986, Congress repealed the three year recovery rule **retroactively**, many of our members, particularly those who planned to retire in 1986, felt betrayed. Those postal and federal workers who planned to retire - and exercise their lump-sum option - felt further betrayed after the summit agreement was implemented, when their option was limited by Congressional action.

In light of recent Congressional actions which have limited employees rightful access to their retirement contributions, we believe that it is vitally important that our members retain the option of withdrawing their retirement contributions in a lump-sum. With this option, retirees, who lost the tax-free use of their retirement dollars in 1986, will still be able to make productive retirement planning decisions which may offset the accelerated tax liability imposed upon them by the Tax Reform Act of 1986.

HEALTH BENEFITS PROPOSALS

Another of the Bush Administration's proposals would revise the formula for calculating the government's share of the health benefits costs under the Federal Employees Health Benefits Program.

Under current law, the government's share of the health benefits premium is based on a simple average of the high option premiums of the health plans offered by the six largest FEHB service providers. For participants employed by Federal agencies, the government's contribution averages 60 percent of

the premium cost; we have negotiated a 75 percent employer contribution for postal workers in our collective bargaining agreement with the U.S. Postal Service.

The President's budget proposes to change the formula used to calculate the government's contribution to a weighted average reflecting of the premiums established by all of the FEHB service providers. The President's proposal, which was the same as that included in the final Reagan budget, would result in $318 million in savings in 1990, and nearly $2 billion in the four fiscal years from 1990 through 1994. The savings, however, would accrue to the government by passing a larger share of the program costs to the enrollee.

Despite the Administration's assertions that the Federal Employees Health Benefits Program is too expensive and generous, recent studies of the program by the General Accounting Office and other consulting entities have challenged this assertion. In general, these studies have concluded that, in comparison with private sector health insurance programs, the FEHB participants pay more for their health insurance coverage.

While it is true that the Federal Employee Health Benefits Program may require some revisions, we would hope that the Congress will undertake any alterations to the program seriously, deliberately, and in a comprehensive fashion. We believe that any changes which are enacted to the program should be calculated to improve the program and not be calculated solely to achieve deficit reduction.

In summary, Mr. Chairman, we are opposed to these proposals and would urge that Congress reject them as it moves toward formulation of a budget and spending plan for the coming fiscal year.

On behalf of the American Postal Workers Union, I thank the Committee for the opportunity to express my views on the Fiscal Year 1990 budget proposals which impact upon postal and federal workers retirement and health benefits. I will be pleased to respond to any questions the Subcommittee members may have.

APPENDIX

Civilian retirement benefit losses projected in Fiscal Year 1990 Budget (Source: House Budget Committee Staff)

COLA FREEZE, REDUCED COLA FORMULA

FISCAL YEAR	SAVINGS
1990	-743 million (1)
1991	-1.229 billion (2)
1992	-1.562 billion
1993	-1.817 billion
1994	-1.930 billion

TERMINATION OF LUMP SUM OPTION

FISCAL YEAR	SAVINGS
1990	-2.073 billion
1991	-2.209 billion
1992	-2.357 billion
1993	-2.515 billion
1994	-2.683 billion

(1) Savings estimate based on calculation of three-quarters of the Fiscal Year -- COLAs are payable in January of each year.

(2) Roughly $1.0 billion of the savings in each Fiscal Year are attributable to the COLA freeze.

Mr. ACKERMAN. Thank you, President Biller. President Sombrotto?

STATEMENT OF VINCENT SOMBROTTO, PRESIDENT, NATIONAL ASSOCIATION OF LETTER CARRIERS

Mr. SOMBROTTO. Thank you, Mr. Chairman. I would like to associate myself with the earlier remark you made about how impressive all of these folks are that are here at this hearing this morning. I would suggest it makes them all eligible to be letter carriers. You know, about wind, and rain and snow and all the rest.

My name is Vincent R. Sombrotto, President of the National Association of Letter Carriers. The NALC represents over 340,000 active and retired city letter carriers. I would like to submit my entire statement for the record and summarize it before this committee.

Mr. ACKERMAN. Without objection, and great appreciation.

Mr. SOMBROTTO. Thank you for holding these hearings on President Bush's budget proposals for FY 1990. During the Reagan Presidency our members were buffeted by repeated assaults on every aspect of their lives. Retirement, health, job security via privatization and pay. No other segment of society received worse budgetary and verbal pummeling than the postal and federal sector.

We have a new President who I hoped would make good on his promise for a kinder and gentler Nation for all Americans. Now we find out that the Budget Director, Richard Darman, added some small print saying, except for postal and federal employees and retirees. The small print has been revealed.

I have a copy here of the official Cabinet memorandum from Mr. Darman to heads of departments and agencies. I would like to submit that with my testimony. It says, "As discussed in the Cabinet meeting the Reagan budget proposals for items within the residual category are to be treated as if they were the Bush Administration proposals for purposes of starting the budget process with the Congress."

Mr. Chairman, the memo is clear. There is no kinder, gentler budget. It is rhetoric. The rhetoric is designed to cut you out of the process. It attempts to go over our heads in trying to convince our constituencies that there is a new dawn. Let us be clear. The substance remains the same as the Jim Miller years. Mr. Chairman, there is nothing kind about reducing wages of employees to increase health benefit premiums. There is nothing gentle about attaching more than one-third of the specific cuts to federal and postal workers and retirees, and there are no points of light in using trickery to disguise billions more in postal cuts which Darman tried to keep hidden.

There is nothing new about impoverishing retirees through COLA cuts. If the 1990 COLA is eliminated and inflation runs at a conservative 4.4 percent, postal retirees lose $600. This loss is injurious, and is in addition to the 1986 Gramm-Rudman COLA elimination, which cost retirees $1,224 in the past three years.

Furthermore, the President's budget is noticeably ignorant of increased retiree costs for Medicare due to the passage of catastrophic coverage.

This budget plans to scapegoat postal and federal employees. In such poisoned waters, Director Darman's offers to reach out to Congress for an acceptable budget are trickery.

His objective is another budget summit without your participation. Everything he does is maneuvering toward that goal: a budget that contains a "black hole" and unusable statistics, shifting targets and "do not pin us down" remarks, rosy predictions of low interest and inflation rates.

It is Darman's version of Gramm-Latta. Darman plans to make a back-room offer you cannot refuse. He will say, we have got to cut your committee, because we have already cut the fat in other programs. He will ignore the fact that our bones have already been picked clean. Our federal and postal employees and retirees have contributed $101 billion in cuts as a result of policy changes affecting pay and benefits in the last decade.

Darman will take a little from SDI and will take billions from retiree COLAs, health benefits and pay. He will add a little to education and seal the deal behind closed doors. He will take the credit and no one takes the blame and our members take the hard cuts. As Yogi Berra once said, "It is deja vu all over again."

The previous President subverted the budget process through commissions and summits. The 1987 Omnibus Reconciliation Act was developed without significant consultation with this committee. Agriculture, Defense and Transportation and others were involved but we were excluded. We were presented with a house of cards and told to take our lumps to keep the package from unraveling.

The summit members lacked specific knowledge in our area but made decisions which had far-reaching, devastating effects. Billions of dollars in cuts for the Postal Service, closure of postal facilities, delayed modernization and costly project stoppages. I will add more specifics concerning the added Postal Service cuts when I testify before the postal subcommittee on Thursday.

Darman is working for an instant replay. I urge you to be involved in every step of the way. The leadership must know that if there is a closed-door session you must be in the room. If decisions are made concerning our members you need to be there. Keep us involved in every aspect of this process. The alternative is catastrophic for both our members and your constituents.

Thank you, and I would be glad to answer any questions you may have and to fully cooperate with this committee's efforts.

[The statement of Mr. Sombrotto and the memorandum he referred to follow:]

VINCENT R. SOMBROTTO, PRESIDENT

NATIONAL ASSOCIATION OF LETTER CARRIERS

MR. CHAIRMAN. MY NAME IS VINCENT R. SOMBROTTO, PRESIDENT OF THE NATIONAL ASSOCIATION OF LETTER CARRIERS. THE NALC REPRESENTS OVER 340,000 ACTIVE AND RETIRED CITY LETTER CARRIERS. I WOULD LIKE TO SUBMIT MY ENTIRE STATEMENT FOR THE RECORD, AND SUMMARIZE IT BEFORE THIS COMMITTEE.

THANK YOU FOR HOLDING THESE HEARINGS ON PRESIDENT BUSH'S BUDGET PROPOSALS FOR FY 1990. DURING THE REAGAN PRESIDENCY OUR MEMBERS WERE BUFFETED BY REPEATED ASSAULTS ON EVERY ASPECT OF THEIR LIVES: RETIREMENT, HEALTH, JOB SECURITY VIA PRIVATIZATION, AND PAY. NO OTHER SEGMENT OF SOCIETY RECEIVED WORSE BUDGETARY AND VERBAL PUMMELING THAN THE POSTAL AND FEDERAL SECTOR.

WE HAVE A NEW PRESIDENT, WHO I HOPE WILL MAKE GOOD ON THE PROMISE FOR A "KINDER AND GENTLER" NATION FOR ALL AMERICANS. NOW WE FIND OUT THAT BUDGET DIRECTOR RICHARD DARMAN ADDED SOME SMALL PRINT SAYING, "EXCEPT FOR POSTAL AND FEDERAL EMPLOYEES AND RETIREES."

THE SMALL PRINT HAS BEEN REVEALED. I HAVE HERE A COPY OF AN OFFICIAL CABINET MEMORANDUM FROM MR. DARMAN TO "HEADS OF DEPARTMENTS AND AGENCIES." IT SAYS, "AS DISCUSSED IN THE CABINET MEETING ... THE REAGAN BUDGET PROPOSALS FOR ITEMS WITHIN THE RESIDUAL CATEGORY ARE TO BE TREATED AS IF THEY WERE THE BUSH ADMINISTRATION PROPOSALS FOR PURPOSES OF STARTING THE BUDGET PROCESS WITH THE CONGRESS."

MR. CHAIRMAN, THIS MEMO IS CLEAR: THERE IS NO "KINDER, GENTLER" BUDGET. IT IS RHETORIC.

THE RHETORIC IS DESIGNED TO CUT YOU OUT OF THE PROCESS. IT

IS AN ATTEMPT TO GO OVER OUR HEADS IN TRYING TO CONVINCE OUR CONSTITUENCIES THAT THERE'S A NEW DAWN. LET US BE CLEAR: THE SUBSTANCE REMAINS THE SAME AS THE JIM MILLER YEARS.

MR. CHAIRMAN, THERE IS NOTHING KIND ABOUT REDUCING WAGES OF EMPLOYEES THROUGH INCREASED HEALTH PREMIUMS.

THERE IS NOTHING GENTLE ABOUT ATTACHING MORE THAN ONE-THIRD OF THE SPECIFIED CUTS TO FEDERAL/POSTAL WORKERS AND RETIREES.

THERE ARE NO POINTS OF LIGHT IN USING TRICKERY TO DISGUISE BILLIONS MORE IN POSTAL CUTS, WHICH DARMAN TRIED TO KEEP HIDDEN.

THERE IS NOTHING NEW ABOUT IMPOVERISHING RETIREES THROUGH COLA CUTS. IF THE 1990 COLA IS ELIMINATED AND INFLATION RUNS AT A CONSERVATIVE 4.4%, POSTAL RETIREES LOSE $600. THIS LOSS IS INJURIOUS, AND IS IN ADDITION TO THE 1986 GRAMM-RUDMAN COLA ELIMINATION, WHICH HAS COST RETIREES $1,224 IN THE PAST THREE YEARS. FURTHERMORE, THE PRESIDENT'S BUDGET IS NOTICEABLY IGNORANT OF INCREASED RETIREE COSTS FOR MEDICARE DUE TO PASSAGE OF CATASTROPHIC COVERAGE.

THIS BUDGET PLANS TO SCAPEGOAT POSTAL AND FEDERAL EMPLOYEES.

IN SUCH POISONED WATERS, DIRECTOR DARMAN'S EFFORTS TO REACH OUT TO CONGRESS FOR AN ACCEPTABLE BUDGET ARE TRICKERY. HIS OBJECTIVE IS ANOTHER BUDGET SUMMIT -- WITHOUT YOUR PARTICIPATION. EVERYTHING HE DOES IS MANEUVERING TOWARD THAT GOAL: A BUDGET THAT CONTAINS A "BLACK HOLE" AND UNUSABLE STATISTICS; SHIFTING TARGETS AND "DON'T PIN US DOWN" REMARKS; ROSY PREDICTIONS OF LOW INTEREST AND INFLATION RATES. IT'S DARMAN'S VERSION OF GRAMM-LATTA.

DARMAN PLANS TO MAKE A BACKROOM "OFFER YOU CAN'T REFUSE".

HE'LL SAY WE'VE GOT TO CUT FROM YOUR COMMITTEE BECAUSE WE'VE ALREADY CUT THE FAT IN OTHER PROGRAMS. HE'LL IGNORE THE FACT THAT OUR BONES HAVE BEEN PICKED CLEAN: OVER THE PAST 10 YEARS FEDERAL/POSTAL EMPLOYEES AND RETIREES HAVE CONTRIBUTED $101 BILLION IN CUTS AS A RESULT OF POLICY CHANGES AFFECTING PAY AND BENEFITS. DARMAN WILL TAKE A LITTLE FROM SDI, AND TAKE BILLIONS FROM RETIREE COLAS, HEALTH BENEFITS AND PAY. HE'LL ADD A LITTLE TO EDUCATION AND SEAL THE DEAL BEHIND CLOSED DOORS. HE'LL TAKE THE CREDIT AND NO ONE TAKES THE BLAME. AND OUR MEMBERS TAKE THE HARD CUTS.

AS YOGI BERRA SAID, "IT'S DEJA VU ALL OVER AGAIN." THE PREVIOUS PRESIDENT SUBVERTED THE BUDGET PROCESS THROUGH COMMISSIONS AND SUMMITS. THE 1987 OMNIBUS RECONCILIATION ACT WAS DEVELOPED WITHOUT SIGNIFICANT CONSULTATION WITH THIS COMMITTEE. AGRICULTURE, DEFENSE, TRANSPORTATION AND OTHERS WERE INVOLVED, BUT WE WERE EXCLUDED. WE WERE PRESENTED WITH A HOUSE OF CARDS, AND TOLD TO TAKE OUR LUMPS TO "KEEP THE PACKAGE FROM UNRAVELING." THE SUMMIT MEMBERS LACKED SPECIFIC KNOWLEDGE IN OUR AREA BUT MADE DECISIONS WHICH HAD FAR-REACHING, DEVASTATING EFFECTS: BILLIONS OF DOLLARS IN CUTS FOR THE POSTAL SERVICE, CLOSURE OF POSTAL FACILITIES, DELAYED MODERNIZATION AND COSTLY PROJECT STOPPAGES. I WILL ADD MORE SPECIFICS CONCERNING THE ADDED POSTAL SERVICE CUTS WHEN I TESTIFY BEFORE THE POSTAL SUBCOMMITTEES ON THURSDAY.

DARMAN IS WORKING FOR AN INSTANT REPLAY. I URGE YOU TO BE INVOLVED EVERY STEP OF THE WAY. THE LEADERSHIP MUST KNOW THAT IF THERE IS A CLOSED-DOOR SESSION, YOU MUST BE IN THE ROOM. IF

DECISIONS ARE MADE CONCERNING OUR MEMBERS, YOU NEED TO BE THERE. KEEP US INVOLVED IN EVERY ASPECT OF THIS PROCESS. THE ALTERNATIVE IS CATASTROPHIC FOR BOTH OUR MEMBERS AND YOUR CONSTITUENTS.

IN HIS STATE OF THE UNION ADDRESS PRESIDENT BUSH PROCLAIMED, "WE HAVE A MORAL CONTRACT WITH OUR SENIOR CITIZENS." I WELCOMED HIS REMARKS. THEY ECHOED STATEMENTS MANY OF US HAVE MADE FOR THE PAST EIGHT YEARS.

BUT HIS GRANDIOSE STATEMENT IS POLITICALLY EXPEDIENT AND LIMITED TO SOCIAL SECURITY RECIPIENTS. THE DARMAN BUDGET PROPOSES CUTS WHICH ROB CIVIL SERVICE RETIREES BY ELIMINATING RETIREE COLAS IN 1990, REDUCING FUTURE COLAS AND ELIMINATING THE LUMP SUM. THIS IS UNACCEPTABLE. THE AVERAGE RETIRED LETTER CARRIER RECEIVES AN ANNUITY OF $13,425 PER YEAR <u>WHICH, UNLIKE SOCIAL SECURITY, IS FULLY TAXABLE</u>. THE RETIREE MAY PAY FOR SPOUSE SURVIVOR, LIFE INSURANCE AND FEHBP COVERAGE, WHICH FURTHER REDUCE THE ANNUITY. MR. PRESIDENT, OUR RETIREES EARNED THEIR COLAS THE HARD WAY; AND THE LUMP SUM IS NECESSARY TO PARTIALLY RESTORE A BROKEN CONTRACT WHICH INCLUDED THE THREE-YEAR RECOVERY RULE. WE DESERVE EQUITY WITH SOCIAL SECURITY PENSIONERS. POSTAL EMPLOYEES WORK DESPITE EXTREME CONDITIONS, AND DESERVE A DIGNIFIED RETIREMENT SIMILAR TO SOCIAL SECURITY RECIPIENTS. THE LOGIC THAT CONTRACTUAL MORALITY IS LESS IMPORTANT TO RETIRED LETTER CARRIERS THAN SOCIAL SECURITY PENSIONERS IS ABSURD. THE RELEVANT MORAL STANDARD IS EQUITY FOR <u>ALL</u> RETIREES. THE DARMAN BUDGET REPRESENTS MORAL HYPOCRISY. IN THAT REGARD, THE NALC SUPPORTS CONGRESSWOMAN OAKAR'S BILL FOR COLA PROTECTION.

THERE IS A NEW POINT OF DARKNESS IN THIS BUDGET. IT IS THE THREAT TO VIOLATE THE COLLECTIVE BARGAINING AGREEMENT AND REDUCE PAY INCREASES TO 2%. MR. CHAIRMAN, IT IS A SINISTER ATTEMPT TO SUBVERT THE 1970 REORGANIZATION AND ESTABLISH EXECUTIVE BRANCH POLITICAL PRIMACY OVER POSTAL BUSINESS. YOU HAVE GOT TO MAKE THIS ADMINISTRATION UNDERSTAND THE FOLLY OF ITS WAYS. THE PROPOSAL IS A STUNT THAT A UNION-BUSTER LIKE FRANK LORENZO WOULD PULL, BUT ENTIRELY UNWORTHY OF PRESIDENT BUSH.

PENALIZING EMPLOYEES THROUGH INCREASING HEALTH BENEFIT PREMIUMS IS ANOTHER REAGAN HOLDOVER. THE GAO RECENTLY NOTED THAT OUR EMPLOYEES PAY MORE FOR HEALTH CARE COSTS THAN ENROLLES IN PRIVATE SECTOR HEALTH PLANS. WE PAY HIGHER DEDUCTIBLE AND CO-INSURANCE COSTS. IF THE HEALTH PLANS NEED TO BE REFORMED, WE ARE WILLING PARTNERS IN THE PROCESS AND TESTIFIED BEFORE CONGRESSMAN ACKERMAN ON THAT SUBJECT. BUT THE PRESIDENTIAL POT-SHOTS HARM, RATHER THAN HELP, FEHBP REFORM.

OTHER PRESIDENTIAL PROPOSALS, SUCH AS ELIMINATING REVENUE FORGONE, STRANGLING THE POSTAL BUDGET WITH CURTAILED CAPITAL EXPENDITURES, CONTRACTING OUT RETAIL OPERATIONS, CLOSING RURAL POST OFFICES AND SHIFTING BILLIONS OF DOLLARS OF HEALTH AND RETIREMENT COSTS TO THE USPS ARE THINLY-VEILED PRIVATIZATION ATTEMPTS.

MR. DARMAN IS PROVING TO BE MORE DEVIOUS THAN HIS PREDECESSOR. HE IS WILLING TO SACRIFICE THE HIGH STANDARDS OF POSTAL SERVICE FOR SHORT TERM, SMOKE-AND-MIRRORS GAIN. WE NEED TO PASS CONGRESSMAN LELAND'S OFF-BUDGET BILL TO PROTECT THE POSTAL

SERVICE FROM THIS SUBTERFUGE.

THE MEMBERS OF THIS COMMITTEE HAVE OFFERED AN EXCELLENT RESPONSE TO THE PRESIDENT IN YOUR "VIEWS AND RECOMMENDATIONS" SENT TO CHAIRMAN PANETTA. SEVERAL MEMBERS OF THE COMMITTEE'S MINORITY ALSO JOINED IN A LETTER TO PRESIDENT BUSH, POINTING OUT THAT, "PROPOSALS WHICH UNFAIRLY TREAT FEDERAL AND MILITARY WORKERS AND RETIREES MAY PRODUCE SHORT-TERM SAVINGS, BUT IN THE LONG RUN MAY COST THE NATION BY LOSING THE CONFIDENCE OF THOSE WHO HAVE SERVED AND WHO CONTINUE TO SERVE THIS COUNTRY."

I SUPPORT YOUR REASONED APPROACH AND LOOK FORWARD TO WORKING TOGETHER TO MAINTAIN THE QUALITY OF SERVICE WHICH POSTAL EMPLOYEES HAVE ACHIEVED.

EXECUTIVE OFFICE OF THE PRESIDENT
OFFICE OF MANAGEMENT AND BUDGET
WASHINGTON, D.C. 20503

THE DIRECTOR

February 16, 1989

M-89-13

MEMORANDUM FOR HEADS OF DEPARTMENTS AND AGENCIES

FROM: Richard G. Darman
Director

SUBJECT: Guidance to Executive Branch Officials on the President's Budget Plan

The purpose of this memorandum is to provide you with guidance in preparing testimony and commenting publicly on the President's 1990 budget plan, presented to Congress February 9th.

Although the situation varies by agency, most of the budget is available in detail in the book entitled "Building a Better America." The initiatives, reforms, natural declines, and special obligations discussed in the book are straightforward -- as is their rationale. They should be presented and defended directly. The President's budget plan does, however, contain a residual (nominal) freeze category where program detail is not presented in the book. This category is frozen in the aggregate at the 1989 dollar level for outlays.

Each agency should first calculate which portions of its 1990 budget are in the residual freeze category. This can readily be done by first identifying those items in the agency budget that are explicitly described in the book. The remainder of the agency budget is in the residual category.

Items in this residual freeze category -- as indeed the entire budget -- are subject to negotiations with Congress. The negotiations may lead to decisions in detail or, quite possibly, broad caps on various categories of spending.

As discussed in the Cabinet meeting, and pending the outcome of the negotiations, the Reagan budget proposals for items within the residual category are to be treated as if they were the Bush Administration proposals for purposes of starting the budget process with the Congress. The alternative of starting with a nominal freeze on each and every account is an analytical possibility -- but it is less practical at this stage than starting with the Reagan marks. However, any agency may propose to OMB a different mix of budget authority and outlays within its portion of the residual freeze category, provided the outlay total is not

changed. If such an alternative mix is approved, it may be presented to the Congress.

The President has identified his priorities -- about which we would expect to be firm. But in the residual freeze area, the intention is to be flexible. With respect to the residual freeze category, therefore, it is our clear expectation that there will be many cases in which an alternative mix will be judged desirable and/or necessary.

Please ensure that all appropriation and budget justification materials continue to be submitted to this office for review, as required by OMB Circular No. A-11 - Preparation and Submission of Annual Budget Estimates. Similarly, agency draft bills, testimony and reports to Congress on authorizing and other substantive legislation should be submitted in accordance with OMB Circular No. A-19 - Legislative Coordination and Clearance. In cases where necessary authorizing or substantive legislation has not yet been submitted to OMB, we ask that you please do so as soon as possible.

If you have questions concerning this memorandum, please have appropriate staff contact the budget examiner for your agency.

Thank you.

Mr. ACKERMAN. Thank you very much, President Sombrotto. President Berrien?

STATEMENT OF GLENN BERRIEN, NATIONAL PRESIDENT, NATIONAL POSTAL MAIL HANDLERS UNION

Mr. BERRIEN. Mr. Chairman and members of the subcommittee, I am Glenn Berrien, the National President of the National Postal Mail Handlers Union, a division of labor's International Union of North America.

Our union represents more than 50,000 hard-working and dedicated mail handlers in the U.S. Postal Service, and I am indeed proud to represent their interest on the issues before this committee. Our union is also privileged to testify on behalf of the more than 450,000 other postal and federal employees enrolled as associate members in our mail handlers' health benefit plan.

Mr. Chairman, we would like to thank you for holding this hearing on the adverse impact the Administration's budget proposals would have on postal and federal employees. Your past efforts in support of the federal work force have earned you the place of high regard by our membership and national officers.

Our membership performs the most physically demanding work that keeps the U.S. mail moving. Mail handlers have a commitment to the integrity of the U.S. Postal Service, yet despite the efforts of our sister and brother mail handlers on loading docks in the cold of the night and in the heat of the day, they have been rewarded by the current Administration with proposals to increase the cost of their health insurance premiums under the federal employees health benefit program and to reduce the cost of living allowance increased for their well-earned retirement years.

The Administration is also proposing the cancellation of the lump sum withdrawal option. Erosion of benefits should not be the reward for dedicated service to the American people.

At a time when the country faces a huge federal budget deficit the mail handlers recognize tough choices must be made to help meet the challenges ahead, but when the times get tough postal and federal employees should not have to shoulder the brunt of the burden.

They have had to deal with pay proposals and benefits delayed, reduced and withheld in the past. Again they face an assault on their benefits. The Administration's proposal to reduce the government's share of FEHBP premium cost is an attack on the most basic workplace benefit.

Several studies already demonstrate that federal employees pay more for health benefits than other private sector employees. The proposal to change the method of premium-share computation from the present method of using the six largest plans' high option to using all plans based on enrolment will increase the premium cost contribution for employees.

The Administration's measure to raise the cost of mail handlers' health insurance premiums is unacceptable for a simple reason: it is a pay cut. The government must not be allowed to reduce its share of health plan premium costs. The erosion of benefits that postal and federal employees are entitled to must end.

The Administration's other proposals continue the method of deficit reduction through postal and federal pay and benefit cuts by eliminating the January 1990 COLA increase to retirees. After the January 1990 freeze, they propose to reduce the structure, the method, of COLA computation to equal the Consumer Price Index minus 1 percent.

It is apparent that the Administration cost cutters see an easy target in the federal retiree COLA rather than approaching the dangerous waters surrounding the Social Security COLA. We maintain that federal retirees should not always end up the losers in the budget battles. If a hit is to be taken, then all government benefit COLAs should be treated equally.

The elimination of the lump sum withdrawal option is another Administration proposal designed to prevent a drain on the budget. It is suggested that repeal of this option could save as much as $1 billion a year, while the lump sum option results in a reduction in annuity payments and a tax on the sum, many retirees do exercise this option. We strongly support continuing this freedom of choice for retirees.

Freedom of choice for our members here has also been threatened by a plan recently presented by the Postal Service. The Postal Service has undertaken a study to establish an agency health benefit program separate from FEHBP. This would place mail handlers outside of the freedom of choice concept and remove the right to select a health benefit plan appropriate to that employee's family's needs.

Mail handlers are opposed to any plans that would remove postal employees from the FEHBP or tamper with the health benefits of postal employees. Mail handlers are supportive of a cooperative effort to review the FEHBP program.

Beyond the assault on federal employee benefits the Administration has proposed elimination of the revenue foregone subsidy. The figure, currently at some $500 million a year, only minimally meets the amount necessary to maintain the current rate levels. Any further reduction in the subsidy, which is appropriated for preferred mailers to encourage a free flow of information through the postal service to the American public, will deny many public interest groups and nonprofit mailers access to their membership.

Mr. Chairman, our union is aware of the staggering federal deficit facing this new Administration. The long-term economic impact is staggering to mail handlers and their children and their children's children. We are committed to removing that threat from our future, but not when the only answer the Administration can present is cutbacks in our benefit structure and our retirement.

Mail handlers and their sister and brother federal and postal employees can no longer suffer under the budget knife because the Administration seeks the easy answer for the deficit. The impact on the morale of the work force is too severe.

Legislation has been introduced in both Houses to return the Postal Service to the off-budget status it enjoyed prior to the Reagan Administration. Returning the Postal Service to the off-budget status will improve the federal deficit. It is an efficient method of reducing the deficit and will improve the situation for our membership.

Mail handlers support H.R. 982, introduced by Congressman Mickey Leland, the distinguished Chairman of the Subcommittee on Postal Operations and Service. H.R. 982 is co-sponsored by some 200 members of the House. A similar measure, S.302, has some 70 co-sponsors. We applaud the Congress for taking so vocal a stand on this important issue to our membership.

Mr. Chairman, I will conclude my brief remarks and thank you for your invitation to speak out for our postal membership and for our federal associate membership. Mail handlers will continue to perform their responsibilities to move the Nation's mail with dedication and pride, and in the tradition of a progressive trade union democracy.

Thank you, sir.

Mr. ACKERMAN. Thank you very much. I just wanted to note that in your opening remarks you stated that you were thanking us for the hearings on the "adverse impact" of the Administration's budget proposals upon federal and postal workers and retirees.

Actually, the hearing was called on the budget proposals and how they affect federal and postal employees and retirees, and not necessarily the adverse impact, but so far I have to tell you that your enlightened observation, even though, if I can quote Yogi Berra that "it ain't over till it's over", so far your summary appears to be the conclusion that we are evidently approaching. Mrs. Morella?

Mrs. MORELLA. Thank you. I want to thank you for appearing before us, Mr. Biller, Mr. Sombrotto and Mr. Berrien, and I would say to Mr. Sombrotto that in Mr. Darman's statement we are going to hold him to the fact that he says he is starting the budget process and we have a long way to go, but he says "start". We are going to take him, we hope, to advantageous conclusion.

I wanted to comment on the revenue foregone. I am also concerned, and again this is a proposal that is made every year in the budget process, and I hope we will be able to prepare this important subsidy.

I look forward also to reviewing the FEHBP program in regard to the health benefits and both of us are also co-sponsors of taking the postal system off-budget. I want to thank all of you for your cooperation throughout my term here in Congress and I look forward to continuing to work with you.

Thank you.

Mr. SOMBROTTO. I would point out that "start" is an acronym for Reduction of Strategic Arms and not Reduced Benefits for Federal and Postal Retirees and acting members.

Mr. ACKERMAN. Mr. President, and Mr. President, Mr. President, thank you. I do have to point out that we have 13 national presidents testifying today. That might be a record. We will have to check.

Mrs. MORELLA. Mr. Chairman, they say that is like when you go through Congress. If you do not know somebody's name, a Member of Congress, you just say, "Mr. Chairman" and the person will respond.

Mr. ACKERMAN. Thank you very, very much, all three.

The next panel is John Sturdivant, President of the American Federation of Government Employees, Beth Moten representing

Jim Pierce, President of the National Federation of Federal Employees, and Mr. Robert Tobias, President of the National Treasury Employees Union. Welcome, all three.

STATEMENT OF JOHN H. STURDIVANT, NATIONAL PRESIDENT, AMERICAN FEDERATION OF GOVERNMENT EMPLOYEES (AFL-CIO)

Mr. STURDIVANT. Thank you, Mr. Chairman, Ms. Morella. My name is John Sturdivant. I am the National President of the American Federation of Government Employees, AFL-CIO. I am pleased to have the opportunity to appear before this committee. I have submitted considerable written remarks that I will not try to get through in the time allotted, and I will summarize my remarks. I would ask that my entire statement be entered into the record.

This year we had high hopes that the new Administration would offer a responsible budget. President Bush came into office promising a kinder, gentler America with support for public service.

Unfortunately, he has disappointed us. His budget is neither kind nor gentle. What is more, the budget he puts forth avoids the difficult choices a leader should face up to in proposing a budget, and I might add that during my short tenure as National President of AFGE I do know how to propose a budget and I know how to balance one.

President Bush's budget contains many of the same proposals suggested by the Reagan Administration and repeatedly rejected by Congress. All the proposals would lower compensation for federal employees at the very time that the federal service is facing a crisis in its ability to recruit and retain quality employees.

Of the specified cuts, 28 percent are aimed directly at federal workers. During the eight years of the Reagan Administration's assault on federal employees and their pay, the real value of federal pay declined by 17 percent when measured by the Consumer Price Index, and President Bush squandered an important opportunity.

His verbal overtures to federal employees have been a welcome change from eight years of bureaucrat bashing, but when it came time to deliver on his words of appreciation and support, the bag was empty. I might add that there is no rational basis for the disparity between the proposals for military pay and the proposals for civilian pay. Our people work side by side with the military in many installations. They help keep those planes flying. They help keep the tanks running, they repair them, and their contributions are just as important and just as vital to this Nation's security as those of the uniformed service.

The advisory committee on pay recommends adoption of a four-year plan that would gradually close the 26 percent comparability gap between the private and federal sectors while taking into account annual increases in the cost-of-living. AFGE supports this policy. Using CBO estimates on inflation, this plan would involve four annual increases in the range of 9 to 10 percent.

President Bush's three proposals which affect federal retirees do nothing but exacerbate the problems of the federal service which derive from inadequate compensation. Suspending COLAs for one year and reducing them by 1 percent below the CPI in subsequent

years constitutes a devastating cut for a vulnerable, and a group that simply does not deserve this type of treatment.

A foregone or reduced COLA in any one year reduces the basis upon which all future COLAs are calculated. An employee who lived for 30 years after retirement would see his real income over the period slashed by 21 percent if this policy were to go into effect.

President Bush tries to characterize this move as a money-saving proposal, but that is an illusion. Although retention of the lump sum option has short-term budget costs, it has absolutely no long-term costs. Initial outlays for the lump sum payments are totally offset by lower pension outlays in the future.

Indeed, if compensation of federal employees is to be comparable to the retirement benefits routinely offered in the private sector, the right to a lump sum pay-out should not only be retained but expanded. The federal employees health benefit program is currently a disaster. It serves neither employees, taxpayers, or the government well. The full-scale restructuring which is needed will only be more difficult if funding of the program is reduced now, and like the proposals to cut retirement benefits and to neglect the problems of federal pay, this proposal will aggravate recruitment and retention problems in government.

Relentless staffing cuts over the past eight years have produced working conditions within many agencies which are counterproductive to the government's efficiency goals and impede workers from performing at optimum levels. For example, frustration over inadequate staffing levels is the second most commonly cited reason among experienced Social Security Administration employees who wish to leave the federal service.

Mr. Chairman, members of the committee, our workers are proud of the contributions they make to our country's domestic programs and to its defense. Their job is to serve the public, and they are only human. When inadequate pay is combined with chronic under-staffing in the face of increasing obligations and responsibilities, something has got to give.

Some people have expressed their disapproval over President Bush's budget proposals by claiming that the sequestration of funds required by the Gramm-Rudman-Hollings law would be preferable to the type of cuts implicit in the Bush budget, and while the Bush budget surely deserves condemnation, sequestration would be a poor choice. It amounts to an abdication of leadership responsibility which would victimize many innocent citizens.

Mr. Chairman and members of the committee, we hope that you will join AFGE in opposing the spending cuts I have discussed today, and which are outlined in more detail in my written statement. We look forward to working with the Congress in constructing a responsible alternative to the President's proposals. I will be happy to respond to any questions the committee might have and I look forward to working with you in the future.

[The statement of John N. Sturdivant follows:]

STATEMENT OF

JOHN N. STURDIVANT
NATIONAL PRESIDENT
AMERICAN FEDERATION OF GOVERNMENT EMPLOYEES
(AFL-CIO)

My name is John N. Sturdivant. I am the National President of the American Federation of Government Employees (AFL-CIO). On behalf of the more than 700,000 active and retired government workers our union represents, I am pleased to submit this statement on the President's FY 1990 budget proposal. First, I would like to thank the members of the committee for their excellent letter to the House Budget Committee. It is gratifying to know that the the members of the Post Office and Civil Service Committee recognize the unfairness of many of the President's proposals.

We came before Congress throughout the Reagan years to testify on that Administration's budgets. Each year we saw proposals to increase spending on military hardware, to cut spending on social services, to increase user fees, to sell off government assets, and to neglect major revenue sources in favor of tax cuts benefitting the wealthiest members of our society. Each year we were treated to fantastic economic assumptions. And each year, along with other unions and our allies, we objected to these proposals. Each year, it was left to Congress to create a responsible budget for the U.S. Government.

This year we had high hopes. President Bush came into office promising to help produce a "kinder and gentler" America with support for public service. Unfortunately, President Bush has disappointed us. His budget is neither kind nor gentle. What is

more, the budget document he put forth avoids the difficult choices a leader should face in proposing a budget.

The President has not really given Congress and the American people a budget in the traditional sense of the word. He attempted to insulate himself and his budget from criticism by refusing to spell out the specifics of where and by how much he wants to cut spending in order to comply with the requirements of Gramm-Rudman-Hollings. But as the highest elected official of the United States Government, President Bush should have a sense of responsibility greater than what he demonstrated in his pamphlet, "Building a Better America."

I regret the fact that I have not had the opportunity to see the specific budget proposals the Bush Administration intends to pursue spelled out clearly in dollars and cents. I shall explain my objections to the proposals which were included in the Bush budget document, and my objections to the proposals which can be inferred from it. But the fact that I am forced to testify in the dark on many important details of the budget which affect the members of our union is unfortunate.

Federal Employees and the Budget

President Bush's FY 1990 budget contains many of the same proposals suggested by the Reagan administration and repeatedly rejected by Congress. All the proposals would lower compensation

for federal employees at the very time that the federal service is facing a crisis in its ability to recruit and retain quality civil servants which is recognized by experts in the area from across the political spectrum, all because of compensation which is inferior to that offered by the private sector.

The proposals affecting federal employees which are explicitly included in the Bush proposals include cutting the federal contribution to health insurance premiums, and reducing retirement benefits for federal retirees. The budget document is silent on the issue of civilian and military pay increases, and the question of staffing is implicitly relegated to that great undifferentiated pool of "frozen" program budgets which are slated for $9.6 billion worth of spending cuts. Of the specified cuts, 28 percent are aimed directly at Federal employees.

Pay

Federal pay systems are in urgent need of responsible action. The Bush administration's failure to even address the issue of federal pay, let alone attempt to solve the crisis in the federal service caused by the inferiority of federal pay, is a disturbing and disappointing sign.

--During the eight years of the Reagan administration's assault on federal employees and their pay, the real value of federal pay

declined by 17 percent when measured by the Consumer Price Index (CPI).

-- Private sector wages and salaries increased by 51.4 percent from 1980-1988, as measured by the Employment Cost Index (ECI). This compares unfavorably to a 30.4 percent increase for federal workers.

-- According to data compiled by the Department of Labor, the productivity of federal workers increased throughout the period from 1980-1988, while the real value of their pay has steadily decreased.

-- Postal workers have seen their wages increase by 41.0 percent from 1980-1988, compared to 30.4 percent for federal workers.

-- Citing the 26 percent comparability gap between the private and federal sector reported by the Pay Agent, the Advisory Committee on Pay recommended an 8 percent increase in federal pay as part of a long-term effort to close the gap. The Committee urged Congress and the new Administration to adopt a four-year plan that would not only close the existing gap, but would take into account annual increases in the cost of living. Based on Congressional Budget Office (CBO) inflation estimates, this would involve four annual increases in the range of 9 to 10 percent.

I cite the inferiority of federal pay increases not to imply that other workers are overpaid; rather, it is to illustrate the degree to which federal workers are underpaid. According to the Federal Pay Comparability Act of 1970, federal wages are to be set at rates equivalent to pay for similar positions in the private sector. By that standard, federal workers up and down the General Schedule are underpaid, by amounts ranging from 20 percent at the bottom to 26 percent at the top.

President Bush squandered an important opportunity by not even mentioning federal pay in his budget. His verbal overtures to federal employees have been a welcome change from eight years of Reagan's bureaucrat-bashing. But when it came time to deliver on his words of appreciation and support, the bag was empty.

President Bush's Director of the Office of Management and Budget, Richard Darman, commented during his confirmation hearings that he found the proposals on Federal and military pay in former President Reagan's 1990 budget "reasonable". These proposals suggested higher increases for military than for non-military federal pay. AFGE's experience at the worksite indicates the importance of maintaining parity between these two groups of workers who frequently work side-by-side performing the same job and making comparable contributions to our nation's defense.

The consequences of the crisis in federal pay are evident in every agency. In many V.A. hospitals, it is nearly impossible to recruit or retain nursing staffs when area hospitals are able to provide pay and benefit packages which are superior to that provided by the federal government. The offices of the Social Security Administration report a chronic inability to retain experienced claims agents. In a recent survey which covered 79 Social Security offices throughout the nation, 43 percent of employees reported that they were currently seeking employment outside the federal service. The two most commonly cited reasons for this desire to quit were: inadequate pay relative to responsibilities, and inadequate resources to enable them to perform their jobs well. Federal prisons also face enormous difficulties in retaining officers, which has resulted in a staffing situations in several prisons where over half of the officers have fewer than two years of experience. The list goes on and on.

Full scale reform of the federal pay system needs to be a top priority for all who are interested in seeing the effective and efficient delivery of government services and implementation of government policies. There should be no illusions that such reform will not cost money. The problem cannot be solved through "zero-sum solutions" (such as some merit pay schemes) which increase the pay of some workers at the expense of others. The entire pay and classification system in the federal sector needs to be

restructured, and substantial across-the-board pay increases must be part of that restructuring.

AFGE believes that the comparability principle is the soundest method for determining pay adjustments, short of full-scale collective bargaining over wages and benefits. Comparability has the virtue of being a market-based system, thus it depoliticizes the pay of federal workers. It has been endorsed by every formal body which has studied the problems of federal compensation, from the Rockefeller Commission to the GAO.

AFGE further believes that total compensation is the proper standard for measuring comparability. Thus, retirement benefits and health insurance benefits should be considered along with pay in the determination of comparability with the private sector.

Retirement

President Bush's budget proposals to eliminate the Cost of Living Adjustment (COLA) for federal retiree pensions in 1990, and reduce the COLA in subsequent years, and his proposal to rescind the right of federal workers to take out their personal contributions to the their retirement accounts in a lump-sum do nothing but exacerbate the problems in the Federal service which derive from inadequate compensation.

Suspending COLA's for one year, and reducing them by one percent below the CPI in subsequent years, constitutes a devastating cut for a most vulnerable and undeserving group -- retirees from the Federal service. A forgone or reduced COLA in any one year reduces the basis on which all future COLA's are calculated. Thus, the so-called one year freeze would lower permanently pension benefits to Federal retirees. An employee who lived for 30 years after retirement would see his real income over the period slashed by 21 percent if this policy were to go into effect.

This proposal is inequitable in the sense that it unfairly targets one group of retirees. No similar proposal has been made, or should be made, to freeze or lower COLA's on Social Security benefits. And as you are well aware, the Social Security offset for Federal employees already reduces dramatically the overall retirement benefits Federal retirees may receive.

The Bush administration has recycled another Reagan proposal detrimental to federal workers: They seek to eliminate the so-called lump-sum option which allows workers to withdraw from their pension accounts an amount equal to their personal contributions and have an actuarially determined reduction in their monthly pension benefit.

President Bush tries to characterize this move as a money-saving proposal, but that is an illusion. Although retention of the lump-sum option has short-term budget costs, it has absolutely no long-term costs. Initial outlays for the lump-sum payouts are totally offset by lower pension outlays in the future.

The lump-sum option is a popular benefit for Federal workers because it grants a considerable amount of flexibility in making retirement plans. It makes no sense whatsoever to deny Federal workers this attractive option for the appearance of short-term budgetary savings which would be recouped by smaller outlays in the future.

Retaining and, in fact, expanding the lump-sum option is called for if compensation of Federal employees is to be comparable to the retirement benefits routinely offered to employees in the private sector. It is now commonplace for private sector employees to have the option to withdraw all the funds from their retirement accounts in a lump-sum distribution. This option is considered a valuable benefit to many employees who prefer to take control of their pension monies in order to make investments of their own choosing for their retirement security.

Health Benefits

The Federal Employees Health Benefits (FEHB) program is currently under strain and is in dire need of full-scale reform. All parties agree that this will be a difficult task. To reduce funding of the program now will only make reform more difficult. The Administration is seeking to lower the government's contribution to the FEHB program by basing its contribution on a weighted average of all 430 plans instead of the "top" six plans. This is not a new proposal; it has been rejected before, and we hope and expect that Congress shall reject it again. It amounts to forcing employees either to pay more for their health insurance, or to enroll in an inferior, less costly health insurance plan.

Like the proposals to cut retirement benefits and to neglect the problems with Federal pay, this proposal will aggravate recruitment and retention problems in the government. A recent study by the GAO (GAO, HRD-87-32BR) compared health insurance coverage for federal and private sector employees. Using data from six years, their conclusion showed that Federal employees are forced to pay a higher percentage of their health care costs in the form of premiums, deductibles, and co-payments than private sector employees. All Federal employees were subject to some annual deductibles, while only 20 percent of covered private sector workers were forced to do so.

Staffing

There is no explicit information in President Bush's budget on staffing levels in particular agencies. Assuming for the moment that, unless specifically contradicted, he means to follow the 1990 budget submitted by President Reagan in this area, there is reason for serious concern.

Reagan's budget included a proposal to cut approximately 850 full-time employees from Health and Human Services, with the majority of these positions to come from the Social Security Administration. Staffing in Veteran's Affairs is to be cut by 5%, or 9,026 full-time equivalent positions. The budget proposes discontinuing 2,081 positions in the Department of Agriculture, whose work would be made up through private contracts. The Interior Department would be slated for a staffing cut of 1,835.

Relentless staffing cuts over the past eight years have produced working conditions within many agencies which are counterproductive to the government's efficiency goals, and impede workers from performing at optimal levels. Frustration over inadequate staffing levels is the second most commonly cited reason among experienced Social Security Administration employees who wish to leave the Federal service. In a nationwide survey, 58 percent of Social Security employees said they disagreed with the statement "my office will be able to provide high quality service to

claimants and beneficiaries during the next year." Only 16 percent agreed. (The rest were undecided).

The Social Security Administration is just one example of an agency which annually is faced with greater responsibilities at the same time that they are given fewer resources to work with. The Administration's proposal is to cut their staff further. This is a recipe for disaster.

Mr. Chairman, and members of the Committee, our workers are proud of the contributions they make to our country's domestic programs. Their job is to serve the public, but they are only human. When inadequate pay is combined with chronic understaffing in the face of increasing obligations and responsibility, something has got to give.

Bush's "Freeze" Fraud

One aspect of the Bush budget which is particularly troublesome is the double standard it employs with regard to the concept of a "freeze." In the case of the Defense Department where spending is set to rise by $10.2 billion, the term "freeze" means constant real terms, i.e., dollars adjusted for inflation and increased obligations. But a large undifferentiated category of programs which includes some entitlement programs and almost every non-entitlement domestic program, where spending is set to fall by

$9.6 billion, a "freeze" means constant nominal terms, i.e., dollars not adjusted for inflation or increased obligations. This $9.6 billion cut that the President's budget calls a freeze represents $2 billion more in cuts than were proposed in Reagan's FY 1990 budget.

In addition to the disingenuous use of the word "freeze," the White House suggests that the areas and amounts of budget cuts to be made from the large pool of "frozen" programs is a subject for negotiation with Congress. Reducing spending on weapons, or exploring ways to increase revenue are not on the negotiating agenda.

On the contrary, President Bush has proposed to cut the tax rate on capital gains to a maximum of 15 percent. Currently, those in the top tax bracket pay 28 percent tax rate on capital gains income, and those with incomes in an interval near the top are taxed at a 33 percent marginal rate.

This cut in capital gains tax rates is presented as means to increase revenues, with the same supply-side rationale that was used for the 1981 tax cuts for the wealthy. Cutting the taxes of the very wealthy did not stimulate savings, work, or investment then, and it is wrong to believe it will do so now. In fact, the Joint Committee on Taxation has estimated that President Bush's proposal would cost the government more than $24 billion between

now and 1994, adding to the deficit. This conclusion is supported by a similar study performed by the Congressional Budget Office. To add insult to injury then, these tax cuts for the owners of wealth such as stocks, bonds, and other financial securities would likely be paid for by poor and middle income Americans who would be forced to suffer from more budget cuts and/or increased taxes because of revenue shortfalls caused by this tax break.

The proposed capital gains tax cut is a windfall for the rich. According to a study by the Congressional Budget Office, which used data from 1984, 55 percent of all capital gains income accrues to those with incomes over $100,000 a year, a group which constitutes the top 1 percent of the income distribution. The wealthiest one-quarter of the top 1 percent receive 42 percent of all capital gains income, about the same proportion as that received collectively by the bottom 99% of American families. In addition, the proceeds from home sales, the most common form of capital gains income received by the bottom 80 percent of the income distribution, are not included in this tax cut.

Like previous supply-side tax cuts for the wealthy, lowering capital gains tax rates would exacerbate the growing disparities in income between the rich, on the one hand, and the poor and the middle class on the other. This "polarization" or inequality in the distribution of income is now at its worst level in 40 years. The rich have not only gotten richer, they have done so partly at

the expense of the middle class and the poor who are worse off today than they were in 1979. The bottom 80 percent of families have seen their incomes decline, putting home-ownership, higher education, and the ability to save for a secure retirement beyond the reach of an increasing number of working Americans. The plan to cut capital gains tax rates only makes the redistribution of income to the rich, and all its attendant social and economic problems, worse.

The responsible course to take with regard to taxes is to increase revenue through progressive taxes on personal and corporate income. The Congressional Budget Office poses several alternatives for addressing the budget deficit from the revenue side. One option is to drop the phaseout of the current 15 percent bracket and create an explicit 33 percent bracket that would be added to all income above the current phaseout levels. This policy would raise income taxes for only the small number of families with income in 1990 of $208,510 or higher. This would raise revenues by $43 billion by 1994. Another alternative explored by CBO would increase the current 28 percent rate to 30 percent. This policy would raise revenues by $94 billion through 1994.

For corporate income, the top rate is currently 34 percent. The CBO study shows that raising the top marginal rate to 35 percent would raise $12 billion through 1994. This corporate tax

increase would only affect the top 10 percent of corporations, who earn approximately 90 percent of all corporate taxable income.

Other new tax schemes which have been suggested include increased gasoline and alcohol taxes, and limitations on the deductibility on home interest payments on second homes, or limiting mortgage deductibility to $20,000 per married couple, or $12,000 per individual annually. This last option would affect fewer than one-half of one percent of taxpayers.

These ideas all make sense in light of the pressing need for more revenues as a preferred alternative to annual deficit crises, and the resulting budget cutting that has weakened our government's ability to provide services ranging from protection of the environment and occupational safety standards, to education, nutrition, health care, and housing for our children and those who are in need.

Conclusion

Some people have expressed their disapproval over President Bush's budget proposals by claiming that the sequestration of funds required by the Gramm-Rudman-Hollings law would be preferable to the type of cuts implicit in the Bush budget. They feel this would

be a "just dessert" for Mr. Darman and the President, in light of their disingenuous efforts thus far in the budget process.

While the Bush budget surely deserves condemnation, sequestration would be a poor choice. It amounts to an abdication of leadership responsibility which would victimize many innocent citizens.

The effects of sequestration are likely to be worse for government employees than even implementation of the mysteries of the Bush budget. This is true because a sequester does not affect all spending evenly. Entitlements, low income programs, Social Security benefits, and spending committed in private service contracts are all excluded. What is left, often referred to as "controllable" spending, would therefore be forced to suffer drastic cuts. Personal costs and program operating budgets would fall under the heading of "controllable" spending and would, therefore, face truly devastating spending cuts.

Mr. ACKERMAN. Mr. President, thank you very, very much. I want to note in your official capacity as National President this is the first time you are testifying before this committee and it is indeed a pleasure and an honor to have you with us.

Mr. STURDIVANT. Well, it is certainly good to be here considering the alternatives.

Mr. ACKERMAN. President Tobias.

STATEMENT OF ROBERT TOBIAS, PRESIDENT, NATIONAL TREASURY EMPLOYEES UNION

Mr. TOBIAS. Thank you very much, Mr. Chairman. I appreciate being allowed to present the views of NTEU on the President's fiscal year 1990 budget.

"Fair compensation for those who bear the responsibility for effective functioning of our government is critical at this juncture of history. We must not allow federal service to become the province only of the wealthy. We must ensure that the door to service remains open to Americans who must work to support their children and save for their retirement.

"As it now stands, government service for any significant length of time presents a financial burden that fewer and fewer of those who are most qualified can afford to accept."

I wish I had coined those words myself and written them myself, because I wholeheartedly agree with them. But they are not mine, Mr. Chairman. Those are the words of former President Reagan taken from a letter he sent to Members of Congress in support of the recommendations of the Commission on Executive, Legislative and Judicial Salaries.

Three days after sending this letter, President Reagan submitted his fiscal year 1990 budget that included a 2 percent pay raise for civilian employees, while military employees would get a 3.6 percent raise, a freeze on federal retirement COLA's, increased premiums for health insurance and the elimination of the lump sum retirement option.

Never a paragon of consistency and always a basher of rank-and-file federal employees, the dichotomy between President Reagan's words and deeds was puzzling, but unfortunately not surprising.

Six days after President Bush took office he spoke to 3,000 federal workers in Washington. All senior employees, not just political appointees, were invited and members of the new Cabinet sat with the President adding luster to the event. I, President of a Federal Labor Union that had endorsed another candidate for president, was invited and attended.

This Administration was going to be different. George Bush understood that government was not the problem but the solution and that good people were needed to run the government. After all, George Bush spent a great deal of his career in public service: Ambassador to the U.N., Ambassador to China, Director of the CIA. And his words that day were music to my ears.

He said, "I am coming to you as President and offering my hand in partnership. I am asking you to join me as full members on our team. I promise to lead and I promise to listen and I promise to serve beside you. I have not known a finer group of people than

those I have worked with in government. You work hard, you sacrifice and you deserve to be recognized, rewarded and appreciated."

A few short days later, President Bush revealed his own budget proposals. They included a 2 percent pay raise for civilian employees while military employees would get a 3.6 percent raise, a freeze on retirement COLA's—in other words, the exact same proposal that had been launched by President Reagan.

At least that is what we think President Bush proposed. The federal pay raise, for example, is in what Budget Committee Chairman Panetta calls, "the black box." Programs neither specifically endorsed nor opposed in the Bush budget.

Needless to say, my gratitude at being asked to serve beside the new President on his new team was short-lived.

George Bush may have gotten to be President by writing thousands of thank-you notes, but federal workers are currently holding an IOU with his name on it, and niceties are not going to pay the bill.

Roughly one third of the entire deficit reduction total would come out of the federal postal portion of the budget if these proposals are adopted. Such cuts could not come at a worse time. In the critical area of pay we are already 26 percent behind the private sector. Recruitment and retention problems are reaching crisis levels, particularly in high-cost areas of the country.

Mr. Chairman, you met with many of our members from the New York area. They pointed out their problems. For example, the Internal Revenue Service in Manhattan, New York, suffered a 39 percent turnover last year. They cannot attract people to jobs and they cannot keep the people once they arrive.

At the same time, according to the Congressional Budget Office the federal work force has increased its productivity and now serves more citizens per employee than a decade ago. It is also particularly insulting for civilian federal workers to be offered roughly half the raise that military employees would receive.

This discriminatory approach, especially in light of the fact that military employees have greatly outdistanced their civilian counterparts in pay and benefits over the last several years was roundly defeated in Congress last year. I hope we can count on our friends here to prevail on that issue again this year.

Of course, pay is not the only place in the budget that discrimination against federal employees can be found. This budget would grant cost-of-living adjustments to Social Security recipients but not to federal employees.

As you know, Mr. Chairman, inflation does not discriminate. It affects all retirees the same and all retirees should be treated the same by their government when it comes to paying COLA's.

For the record, NTEU supports a full COLA for fiscal year 1990, continuation of a lump sum retirement option, no increases in health care costs and a pay raise of 6 percent, or 3 percent above inflation, whichever is higher.

In addition, we urge the subcommittee to move quickly on pay and health benefit reform proposals. We believe pay could be set much more fairly by collective bargaining with individual agencies. We also believe that federal employees would be better served by a health benefit system that provided free basic coverage through